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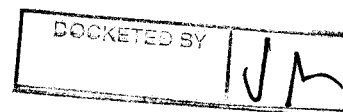
July 3, 2000

**VIA FEDERAL EXPRESS**

Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Arizona Corporation Commission  
**DOCKETED**

JUL 05 2000



Re: Amendment to Application of ICG Telecom Group, Inc.  
(Docket No. T03566A-99-0743)

Dear Sir or Madam:

On behalf of ICG Telecom Group, Inc. ("ICG"), we hereby submit an original and ten (10) copies of an amendment to its above-captioned application.

This amendment is being submitted pursuant to a request by Rodney Moore of the Commission's staff, and consists of the "Consolidated Financial Statements" sections of the 1999 SEC 10-K report and first quarter 2000 SEC 10-Q report of ICG Communications, Inc., ICG's parent company.

We request that the Commission please add this filing to ICG's above-captioned application file.

We have included an extra copy of this filing, marked "Stamp and Return," as well as a self-addressed, pre-paid overnight airbill and delivery envelope. Please stamp and return the extra copy to confirm your receipt.

Any questions regarding this filing may be directed to the undersigned.

Respectfully submitted,  
ICG TELECOM GROUP, INC.

By

Valerie M. Furman

VMF/clh

cc: Amy Hartzler

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**Excerpts from ICG Communications, Inc.'s  
1999 SEC Form 10-K Report**

(23) Consents

23.1: Consent of KPMG LLP.

23.2: Consent of Ernst & Young LLP.

(24) Power of Attorney.

Not Applicable.

(27) Financial Data Schedule.

27.1: Financial Data Schedule of ICG Communications, Inc. for the Year Ended December 31, 1999.

(B) Report on Form 8-K

The following report on Form 8-K was filed by the Registrants during the quarter ended December 31, 1999:

ICG Communications, Inc.	(i) Current Report on Form 8-K dated November
ICG Holdings (Canada) Co.	1, 1999 regarding the announcement of the
ICG Holdings, Inc.:	Company's earnings information and
	results of operations for the quarter
	ended September 30, 1999.

(C) Exhibits

The exhibits required by this Item are listed under Item 14(A) (3).

(D) Financial Statement Schedule

The financial statement schedule required by this Item is listed under Item 14(A) (2).

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT - REPORT OF KPMG LLP

The Board of Directors and Stockholders  
ICG Communications, Inc.:

We have audited the accompanying consolidated balance sheets of ICG Communications, Inc. and subsidiaries (the Company) as of December 31, 1998 and

1999 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of NETCOM On-Line Communication Services, Inc. (NETCOM), a discontinued wholly owned subsidiary of the Company, for the year ended December 31, 1997, whose loss from operations constitutes 83.8 percent of the consolidated loss from discontinued operations in 1997. Those consolidated financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for NETCOM in 1997, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ICG Communications, Inc. and subsidiaries as of December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Denver, Colorado  
February 16, 2000

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REPORT OF ERNST & YOUNG LLP, Independent Auditors

The Board of Directors and Stockholders  
NETCOM On-Line Communication Services, Inc.

We have audited the consolidated statements of operations, stockholders' equity and cash flows of NETCOM On-Line Communication Services, Inc. for the year ended December 31, 1997 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of NETCOM On-Line Communication Services, Inc. for the year December 31, 1997, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst &amp; Young LLP

San Jose, California  
February 13, 1998

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Consolidated Balance Sheets  
December 31, 1998 and 1999

Assets	December 31,	
	1998	1999
	(in thousands)	
Current assets:		
Cash and cash equivalents	\$210,307	103,288
Short-term investments available for sale (note 5)	52,000	22,219
Receivables:		
Trade, net of allowance of \$14.4 million and \$78.7 million at December 31, 1998 and 1999, respectively (note 14)	113,030	167,273
Other	529	1,458
	113,559	168,731
Prepaid expenses, deposits and inventory	11,530	11,388
Net current assets of discontinued operations (note 3)	66	-
Total current assets	387,462	305,626
Property and equipment (notes 6, 9, 10, 14 and 16)	1,064,112	1,805,378
Less accumulated depreciation	(156,054)	(279,698)
Net property and equipment	908,058	1,525,680
Restricted cash (note 11)	16,912	12,537
Investments (note 7)	-	28,939
Other assets:		
Goodwill, net of accumulated amortization of \$12.4 million and \$31.7 million at December 31, 1998 and 1999, respectively (note 4)	110,513	95,187
Deferred financing costs, net of accumulated amortization of \$9.6 million and \$14.4 million at December 31, 1998 and 1999, respectively (note 10)	35,958	35,884
Transmission and other licenses	5,646	-
Other, net (note 8)	22,324	16,768
	174,441	147,839
Net non-current assets of discontinued operations (note 3)	102,774	-
Total assets (note 15)	\$ 1,589,647	2,020,621

(Continued)

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Consolidated Balance Sheets, Continued

Liabilities and Stockholders' Deficit	December 31,	
	1998	1999
	(in thousands)	

Current liabilities:		
Accounts payable	\$ 30,424	112,291
Payable pursuant to IRU agreement (note 9)	-	135,322
Accrued liabilities	51,565	85,709
Deferred revenue (note 14)	5,647	25,175
Deferred gain on sale (note 3)	-	5,475
Current portion of capital lease obligations (notes 9 and 14)	4,846	8,090
Current portion of long-term debt (note 10)	46	796
Current liabilities of discontinued operations (note 3)	-	529
Total current liabilities	92,528	373,387
Capital lease obligations, less current portion (notes 9 and 14)	62,946	63,348
Long-term debt, net of discount, less current portion (note 10)	1,598,998	1,905,901
Other long-term liabilities	-	2,526
Total liabilities	1,754,472	2,345,162
Redeemable preferred stock of subsidiary (\$346.2 million and \$397.9 million liquidation value at December 31, 1998 and 1999, respectively) (note 11)	338,310	390,895
Company-obligated mandatorily redeemable preferred securities of subsidiary limited liability company which holds solely Company preferred stock (\$133.4 million liquidation value at December 31, 1998 and 1999) (note 11)	128,042	128,428
Stockholders' deficit (note 12):		
Common stock, \$.01 par value, 100,000,000 shares authorized; 46,360,185 and 47,761,337 shares issued and outstanding at December 31, 1998 and 1999, respectively (notes 1 and 12)	464	478
Additional paid-in capital	577,940	599,282
Accumulated deficit	(1,209,462)	(1,443,624)
Accumulated other comprehensive loss	(119)	-
Total stockholders' deficit	(631,177)	(843,864)
Commitments and contingencies (notes 7, 9, 10, 11 and 14)		
Total liabilities and stockholders' deficit	\$ 1,589,647	2,020,621

See accompanying notes to consolidated financial statements.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Consolidated Statements of Operations  
Years Ended December 31, 1997, 1998 and 1999

	Years ended December 31,		
	1997	1998	1999
	(in thousands, except per share data)		
Revenue (notes 2, 14 and 15)	\$ 149,358	303,317	479,226
Operating costs and expenses:			
Operating costs	147,338	187,260	238,927
Selling, general and administrative expenses	121,884	158,153	239,756
Depreciation and amortization (notes 6 and 15)	49,836	91,927	174,239
Provision for impairment of long-lived assets (note 15 and 16)	5,169	-	31,815
Restructuring costs (note 17)	-	1,786	-
Other, net	292	4,877	387
Total operating costs and expenses	324,519	444,003	685,124
Operating loss	(175,161)	(140,686)	(205,898)
Other (expense) income:			
Interest expense (notes 10 and 15)	(117,521)	(170,015)	(212,420)
Interest income	21,828	28,401	16,300
Other expense, net, including realized gains and losses on marketable trading securities (note 7)	(424)	(1,118)	(2,522)
	(96,117)	(142,732)	(198,642)
Loss from continuing operations before income taxes, preferred dividends and extraordinary gain	(271,278)	(283,418)	(404,540)
Income tax expense (notes 15 and 18)	-	(90)	(25)
Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses (note 11)	(39,019)	(55,183)	(61,897)
Loss from continuing operations before extraordinary gain	\$ (310,297)	(338,691)	(466,462)

(Continued)

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Consolidated Statements of Operations, Continued

	Years ended December 31,		
	1997	1998	1999
	(in thousands, except per share data)		
Discontinued operations (notes 1 and 3):			
Loss from discontinued operations	\$ (50,438)	(77,577)	(1,036)
(Loss) gain on disposal of discontinued operations, net of income taxes of \$4.7 million in 1999	-	(1,777)	37,825
	(50,438)	(79,354)	36,789
Net loss before extraordinary gain	(360,735)	(418,045)	(429,673)
Extraordinary gain on sales of operations of NETCOM, net of income taxes of \$2.0 million (notes 3 and 15)	-	-	195,511
Net loss	\$ (360,735)	(418,045)	(234,162)
Other comprehensive loss:			
Foreign currency translation adjustment	(527)	(263)	-
Unrealized loss on short-term investments available for sale	(540)	-	-
Other comprehensive loss	(1,067)	(263)	-
Comprehensive loss	\$ (361,802)	(418,308)	(234,162)
Net loss per share - basic and diluted:			
Loss from continuing operations	\$ (7.30)	(7.49)	(9.90)
(Loss) income from discontinued operations	(1.19)	(1.76)	0.78
Extraordinary gain on sales of operations of NETCOM	-	-	4.15
Net loss per share - basic and diluted	\$ (8.49)	(9.25)	(4.97)
Weighted average number of shares outstanding - basic and diluted	42,508	45,194	47,116

See accompanying notes to consolidated financial statements.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Consolidated Statements of Stockholders' Equity (Deficit)

Years Ended December 31, 1997, 1998 and 1999

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity (deficit)
	Shares	Amount				
	(in thousands)					
Balances at January 1, 1997	41,930	\$8,189	499,993	(430,682)	1,211	78,711
Shares issued for cash in connection with the exercise						

of options and warrants (note 12)	938	5	4,111	-	-	4,116
Shares issued in connection with business combination (note 4)	687	7	15,953	-	-	15,960
Shares issued for cash in connection with employee stock purchase plan (note 12)	240	2	3,020	-	-	3,022
Shares issued as contribution to 401(k) plan (note 19)	179	2	3,008	-	-	3,010
Exchange of ICG Holdings (Canada), Inc. common shares for ICG common stock	-	(7,456)	7,456	-	-	-
Reversal of unrealized gains on short-term investments available for sale	-	-	-	-	(540)	(540)
Cumulative foreign currency translation adjustment	-	-	-	-	(527)	(527)
Net loss	-	-	-	(360,735)	-	(360,735)
Balances at December 31, 1997	43,974	749	533,541	(791,417)	144	(256,983)
Shares issued for cash by subsidiary, net of selling costs	127	1	3,384	-	-	3,385
Shares issued for cash in connection with the exercise of options and warrants (note 12)	1,519	15	19,268	-	-	19,283
Shares issued in connection with business combinations (note 4)	502	5	15,527	-	-	15,532
Shares issued for cash in connection with the employee stock purchase plan (note 12)	111	1	2,249	-	-	2,250
Shares issued as contribution to 401(k) plan (note 19)	127	2	3,662	-	-	3,664
Exchange of ICG Holdings (Canada), Inc. common shares for ICG common stock	-	(309)	309	-	-	-
Cumulative foreign currency translation adjustment	-	-	-	-	(263)	(263)
Net loss	-	-	-	(418,045)	-	(418,045)
Balances at December 31, 1998	46,360	464	577,940	(1,209,462)	(119)	(631,177)
Shares issued for cash in connection with the exercise of options and warrants (note 12)	935	9	12,524	-	-	12,533
Shares issued for cash in connection with the employee stock purchase plan (note 12)	206	2	3,359	-	-	3,361
Shares issued as contribution to 401 (k) plan (note 19)	260	3	5,457	-	-	5,460
Shares issued upon conversion of long-term debt	-	-	2	-	-	2
Reversal of cumulative foreign currency translation adjustment	-	-	-	-	119	119
Net loss	-	-	-	(234,162)	-	(234,162)
Balances at December 31, 1999	47,761	\$ 478	599,282	(1,443,624)	-	(843,864)

See accompanying notes to consolidated financial statement

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
Years Ended December 31, 1997, 1998 and 1999

	Years ended December 31,		
	1997	1998	1999
		(in thousands)	
Cash flows from operating activities:			
Net loss	\$ (360,735)	(418,045)	(234,162)
Net loss (income) from discontinued operations	50,438	79,354	(36,789)
Extraordinary gain on sales of discontinued operations	-	-	(195,511)
Adjustments to reconcile net loss to net cash (used) provided by operating activities:			
Recognition of deferred gain	-	-	(29,250)
Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses	37,904	55,183	61,897
Depreciation and amortization	49,936	91,927	174,239
Provision for impairment of long-lived assets	5,169	-	31,815
Deferred compensation	-	-	1,293
Net loss (gain) on disposal of long-lived assets	292	4,877	(906)
Provision for uncollectible accounts	3,573	11,238	60,019
Interest expense deferred and included in long-term debt, net of amounts capitalized on assets under construction	102,947	152,601	186,080
Interest expense deferred and included in capital lease obligations	6,345	5,637	5,294
Amortization of deferred advertising costs included in selling, general and administrative expenses	-	1,795	-
Amortization of deferred financing costs included in interest expense	2,514	4,478	4,860
Write-off of non-operating assets	200	-	-
Contribution to 401(k) plan through issuance of common stock	3,010	3,664	5,460
Change in operating assets and liabilities, excluding the effects of business combinations, dispositions and	-	-	-

non-cash transactions:			
Receivables	(24,257)	(88,962)	(120,857)
Prepaid expenses, deposits and inventory	(5,426)	(1,566)	3,474
Deferred advertising costs	-	(1,795)	-
Accounts payable and accrued and other liabilities	20,846	(2,288)	83,406
Deferred revenue	583	1,842	20,721
Net cash (used) provided by operating activities	\$ (106,761)	(100,060)	21,083

(Continued)

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

	Years ended December 31,		
	1997	1998	1999
	(in thousands)		
Cash flows from investing activities:			
Proceeds from sales of discontinued operations, net of selling costs and cash included in sales	\$ -	-	374,897
Payments for business acquisitions, net of cash acquired	(45,861)	(67,841)	-
Acquisition of property, equipment and other assets	(261,318)	(355,261)	(591,518)
Payments for construction of corporate headquarters	(29,432)	(4,944)	(3,300)
Purchase of corporate headquarters	-	-	(528)
Proceeds from disposition of property, equipment and other assets	14,574	168	4,300
Proceeds from sale of corporate headquarters, net of selling and other costs	-	30,283	-
(Purchase) sale of short-term investments available for sale	(65,580)	60,281	29,781
Proceeds from sale of marketable securities, net of realized gain	-	-	30,000
(Increase) decrease in restricted cash	(25,416)	7,737	4,375
Increase in long-term notes receivable from affiliate and others	(9,552)	(4,880)	-
Purchase of investments	-	-	(28,939)
Purchase of minority interest in subsidiaries	-	(9,104)	(6,039)
Net cash used by investing activities	(422,585)	(343,561)	(186,971)
Cash flows from financing activities:			
Proceeds from issuance of common stock:			
Sale by subsidiary	-	3,385	-
Business combination	15,960	-	-
Exercise of options and warrants	4,116	19,283	12,533
Employee stock purchase plan	1,319	2,250	3,361
Proceeds from issuance of redeemable preferred securities of subsidiary, net of issuance costs	223,628	-	-
Proceeds from issuance of long-term debt	99,908	550,574	80,000
Deferred long-term debt issuance costs	(3,554)	(17,591)	(4,785)
Principal payments on capital lease obligations	(29,735)	(16,509)	(14,662)
Principal payments on long-term debt	(1,598)	(6,864)	(502)
Payments of preferred dividends	(1,240)	(8,927)	(8,927)
Net cash provided by financing activities	308,804	525,601	67,018
Net (decrease) increase in cash and cash equivalents	(220,542)	81,980	(98,870)
Net cash (used) provided by discontinued operations	(19,204)	7,753	(8,149)
Cash and cash equivalents, beginning of year	360,320	120,574	210,307
Cash and cash equivalents, end of year	\$ 120,574	210,307	103,288

(Continued)

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

	Years ended December 31,		
	1997	1998	1999
	(in thousands)		
Supplemental disclosure of cash flows information of			

continuing operations:			
Cash paid for interest	\$ 5,715	7,299	15,216
	=====	=====	=====
Cash paid for income taxes	\$ -	90	2,848
	=====	=====	=====
Supplemental schedule of non-cash investing and financing activities of continuing operations:			
Common stock issued in connection with business combinations (note 4)	\$ -	15,532	-
	=====	=====	=====
Acquisition of corporate headquarters assets through the issuance of long-term debt and conversion of security deposit (note 10)	\$ -	-	33,077
	=====	=====	=====
Assets acquired pursuant to IRU agreement	-	-	135,322
Assets acquired under capital leases	-	775	8,393
	=====	=====	=====
Total (notes 9 and 14)	\$ -	775	143,715
	=====	=====	=====

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Organization and Nature of Business

ICG Communications, Inc., a Delaware corporation (ICG), was incorporated on April 11, 1996 and is the publicly-traded U.S. parent company of ICG Funding, LLC, a special purpose Delaware limited liability company and wholly owned subsidiary of ICG (ICG Funding), ICG Holdings (Canada) Co., a Nova Scotia unlimited liability company (Holdings-Canada), ICG Holdings, Inc., a Colorado corporation (Holdings), and ICG Services, Inc., a Delaware corporation (ICG Services) and their subsidiaries. ICG and its subsidiaries are collectively referred to as the "Company."

The Company's principal business activity is telecommunications services (Telecom Services). Telecom Services consists primarily of the Company's competitive local exchange carrier operations which provide local, long distance, data and enhanced telephony services to business end-users and Internet service providers (ISPs). Additionally, beginning in February 1999, the Company began providing wholesale network services over its nationwide data network to ISPs and other telecommunications providers. Through October 22, 1999, the Company provided Network Services which consisted of information technology services and selected networking products, focusing on network design, installation, maintenance and support for a variety of end-users, including Fortune 1000 firms and other large businesses and telecommunications companies. Through November 30, 1999, the Company also provided Satellite Services which consisted of satellite voice, data and video services provided to major cruise ship lines, the U.S. Navy, the offshore oil and gas industry and integrated communications providers. The Company's consolidated financial statements reflect the operations and net assets of Network Services and Satellite Services as discontinued for all periods presented.

On January 21, 1998, ICG completed a merger with NETCOM On-Line Communication Services, Inc. (NETCOM). The Company issued approximately 10.2 million shares of ICG Common Stock in connection with the merger, valued at approximately \$284.9 million on the date of the merger. The business combination was accounted for as a pooling of interests. Effective November 3, 1998, the Company's board of directors adopted the formal plan to dispose of the operations of NETCOM and, accordingly, the Company's consolidated financial statements reflect the operations and net assets of NETCOM as discontinued for all periods presented.

In conjunction with the sales, the legal name of the NETCOM subsidiary was changed to ICG NetAhead, Inc. (NetAhead) (see note 3).

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (2) Summary of Significant Accounting Policies

## (a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and give retroactive effect to the merger of ICG and NETCOM on January 21, 1998, which was accounted for as a pooling of interests, and include the accounts of NETCOM and its subsidiaries as of the end of and for the periods presented. Additionally, the accompanying consolidated financial statements reflect the operations of NETCOM, Network Services, Satellite Services and Zycom Corporation (Zycom) as discontinued for all periods presented.

All significant intercompany accounts and transactions have been eliminated in consolidation.

## (b) Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

## (c) Inventory

Inventory, consisting of equipment to be utilized in the installation of telecommunications systems, services and networks for customers, is recorded at the lower of cost or market.

## (d) Investments

The Company's short-term investment objectives are safety, liquidity and yield, in that order. The Company invests primarily in high-grade, short-term investments which consist of money market instruments, commercial paper, certificates of deposit, government obligations and corporate bonds, all of which are considered to be available for sale. Realized gains and losses and declines in value judged to be other than temporary are included in the statement of operations.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (2) Summary of Significant Accounting Policies (continued)

Investments in partnership interests and in common or preferred stock for which there is no public trading market and which represent less than a 20% equity interest in the investee company are accounted for using the cost method, unless the Company exercises significant influence and/or control over the operations of the investee company, in which case the equity method of accounting is used.

## (e) Property and Equipment

Property and equipment are stated at cost. Costs of construction are capitalized, including interest costs related to construction. Equipment held under capital leases is stated at the lower of the fair value of the asset or the net present value of the minimum lease payments at the inception of the lease. For equipment held under capital leases, depreciation is provided using the straight-line method over the estimated useful lives of the assets owned, or the related lease term, whichever is shorter.

Estimated useful lives of major categories of property and equipment are as follows:

Furniture, fixtures and office equipment	3 to 7 years
Machinery and equipment	3 to 8 years
Fiber optic equipment	8 years
Switch equipment	10 years
Fiber optic network	20 years
Buildings and improvements	31.5 years

(f) Capitalized Labor Costs

Also included in property and equipment are capitalized labor and other costs associated with network development, service installation and internal-use software development.

The Company capitalizes costs of direct labor and other employee benefits associated with the development, installation and expansion of the Company's networks. Depreciation begins in the period the network is substantially complete and available for use and is recorded on a straight-line basis over the estimated useful life of the equipment or network, ranging from eight to 20 years.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Summary of Significant Accounting Policies (continued)

The Company capitalizes costs of direct labor and other employee benefits associated with installing and provisioning local access lines for new customers and providing new services to existing customers, since these costs are directly associated with multi-period, contractual, revenue-producing activities. Direct labor costs are capitalized only when directly related to the provisioning of customer services with multi-period contracts. Capitalization begins upon the acceptance of the customer order and continues until the installation is complete and the service is operational. Capitalized service installation costs are depreciated on a straight-line basis over two years, the estimated average customer contract term.

The Company capitalizes costs of direct labor and other employee benefits associated with the development of internal-use computer software in accordance with Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Internal-use software costs are depreciated over the estimated useful life of the software, typically two to five years, beginning in the period when the software is substantially complete and ready for use.

(g) Other Assets

Amounts related to the acquisition of transmission and other licenses

are recorded at cost and amortized over 20 years using the straight-line method. Goodwill resulting from the application of the purchase method of accounting for business combinations is amortized over a maximum of 20 years using the straight-line method.

Rights of way, minutes of use, and non-compete agreements are recorded at cost, and amortized using the straight-line method over the terms of the agreements, ranging from two to 12 years.

Amortization of deferred financing costs is provided over the life of the related financing agreement, the maximum term of which is ten years, and is included in interest expense.

(h) Impairment of Long-Lived Assets

The Company provides for the impairment of long-lived assets, including goodwill, pursuant to Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(2) Summary of Significant Accounting Policies (continued)

(SFAS 121), which requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated undiscounted future cash flows expected to be generated by the asset are less than its carrying value. Measurement of the impairment loss is based on the estimated fair value of the asset, which is generally determined using valuation techniques such as the discounted present value of expected future cash flows.

(i) Foreign Currency Translation Adjustments

The functional currency for all operations of NETCOM, which were sold during the year ended December 31, 1999, was the local currency. As such, all assets and liabilities denominated in foreign currencies were translated through March 16, 1999 at the exchange rate on the balance sheet date. Revenue and costs and expenses were translated at weighted average rates of exchange prevailing during the period. Translation adjustments are included in other comprehensive loss, which is a separate component of stockholders' equity (deficit). Gains and losses resulting from foreign currency translations are included in discontinued operations and are not significant for the periods presented.

(j) Revenue Recognition

The Company recognizes revenue from services provided to its business end-user and ISP customers as such services are provided and charges direct selling expenses to operations as incurred. Maintenance revenue is recognized as services are provided. Uncollectible trade receivables are accounted for using the allowance method.

Generally, the Company recognizes revenue earned under indefeasible rights of use (IRUs), of constructed dark fiber, in exchange for cash, ratably over the term of the agreement. In the event that the IRU

meets the definition of a sales-type lease pursuant to Statement of Financial Accounting Standards No. 13, Accounting for Leases (SFAS No. 13), and the Company transfers ownership of the underlying assets to the customer, the Company will apply sales-type lease accounting and recognize revenue and related costs at the inception of the agreement. Prior to June 30, 1999, the Company applied sales-type lease accounting to IRUs that met the

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ICG COMMUNICATIONS, INC.  
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Notes to Consolidated Financial Statements, Continued

(2) Summary of Significant Accounting Policies (continued)

criteria included in SFAS No. 13, whether or not the agreement provided for the transfer of ownership of the underlying assets. Under either application, revenue recognition begins in the period that facilities are available for use by the customer. Revenue earned on the portion of IRUs attributable to the provision of maintenance services is recognized as services are provided, or ratably over the term of the agreement.

Deferred revenue includes advance billings to customers for services provided by the Company's operations which have been billed in advance to the customer in compliance with contract terms.

(k) Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Net Loss Per Share

Net loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding. Weighted average number of shares outstanding represents combined ICG Common Stock and Holdings-Canada Class A common shares outstanding for the years ended December 31, 1997 and 1998, and ICG Common Stock only for the year ended December 31, 1999.

Net loss per share is determined in accordance with Financial Accounting Standards Board Statement No. 128, Earnings Per Share (SFAS 128). Under SFAS 128, basic loss per share is computed on the basis of weighted average common shares outstanding. Diluted loss per share considers potential common stock instruments in the calculation of weighted average common shares outstanding. Potential common

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ICG COMMUNICATIONS, INC.  
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## Notes to Consolidated Financial Statements, Continued

## (2) Summary of Significant Accounting Policies (continued)

stock instruments, which include options, warrants and convertible subordinated notes and preferred securities, are not included in the Company's net loss per share calculation, as their effect is anti-dilutive.

## (m) Stock-Based Compensation

The Company accounts for its stock-based employee and non-employee director compensation plans using the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations (APB 25). The Company has provided pro forma disclosures of net loss and net loss per share as if the fair value based method of accounting for these plans, as prescribed by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), had been applied. Pro forma disclosures include the effects of employee and non-employee director stock options granted during the periods presented.

## (n) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

## (o) Reclassifications

Certain prior period amounts have been reclassified to conform with the current period's presentation.

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ICG COMMUNICATIONS, INC.  
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## Notes to Consolidated Financial Statements, Continued

## (3) Discontinued Operations and Divestitures

Loss from discontinued operations consists of the following:

	Years ended December 31,		
	1997	1998	1999
	(in thousands)		
NETCOM (a)	\$ (33,092)	(61,090)	-
Network Services (b)	(3,494)	(8,583)	(1,349)
Satellite Services (c)	(7,461)	(3,056)	313
Zycom (d)	(6,391)	(4,848)	-
Loss from discontinued operations	<u>\$ (50,438)</u>	<u>(77,577)</u>	<u>(1,036)</u>

## (a) NETCOM

On February 17, 1999, the Company sold certain of the operating assets and liabilities of NETCOM to MindSpring Enterprises, Inc., an ISP located in Atlanta, Georgia and predecessor to EarthLink, Inc. (MindSpring). Total proceeds from the sale were \$245.0 million, consisting of \$215.0 million in cash and 376,116 shares of common stock of MindSpring, valued at approximately \$79.76 per share at the time of the transaction. Assets and liabilities sold to MindSpring included those directly related to the domestic operations of NETCOM's Internet dial-up, dedicated access and Web site hosting services. In conjunction with the sale to MindSpring, the Company entered into an agreement to lease to MindSpring for a one-year period the capacity of certain network operating assets formerly owned by NETCOM and retained by the Company. MindSpring utilized the Company's network capacity under this agreement to provide Internet access to the dial-up services customers formerly owned by NETCOM. In addition, the Company received for a one-year period 50% of the gross revenue earned by MindSpring from the dedicated access customers formerly owned by NETCOM. The carrying value of the assets retained by the Company was approximately \$21.7 million, including approximately \$17.5 million of network equipment, on February 17, 1999. The Company also retained approximately \$11.3 million of accrued liabilities and capital lease obligations.

On March 16, 1999, the Company sold all of the capital stock of NETCOM's international operations for total proceeds of approximately \$41.1 million. MetroNET Communications Corp., a Canadian entity, and Providence Equity Partners, located in Providence, Rhode Island (Providence), together purchased the

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(3) Discontinued Operations and Divestitures (continued)

80% interest in NETCOM Canada Inc. owned by NETCOM for approximately \$28.9 million in cash. Additionally, Providence purchased all of the capital stock of NETCOM Internet Access Services Limited, NETCOM's operations in the United Kingdom, for approximately \$12.2 million in cash.

During the year ended December 31, 1999, the Company recorded a combined gain on the sales of the operations of NETCOM of approximately \$195.5 million, net of income taxes of approximately \$2.0 million. Offsetting the gain on the sales is approximately \$16.6 million of net losses from operations of NETCOM from November 3, 1998 (the date on which the Company's board of directors adopted the formal plan to dispose of the operations of NETCOM) through the dates of the sales. Additionally, since the Company expected to generate operating costs in excess of revenue under its network capacity agreement with MindSpring and the terms of the sale agreement were dependent upon and negotiated in conjunction with the terms of the network capacity agreement, the Company deferred approximately \$34.7 million of the proceeds from the sale agreement to be applied on a periodic basis to the network capacity agreement. The deferred proceeds were recognized in the Company's statement of operations as the Company incurred cash operating losses under the network capacity agreement. Accordingly, the Company did not recognize any revenue, operating costs or selling, general and administrative expenses from services provided to

MindSpring for the term of the agreement. Any incremental revenue or costs generated by other customers were recognized in the Company's consolidated statement of operations as incurred. During the year ended December 31, 1999, the Company applied \$29.3 million of deferred proceeds from the sale of the operating assets and liabilities of NETCOM to the network capacity agreement with MindSpring, which entirely offset the costs of the Company's operations under the agreement. The Company, through NetAhead, is currently utilizing the retained network operating assets to provide wholesale capacity and other enhanced network services on an ongoing basis to MindSpring under a new agreement as well as to other ISPs and telecommunications providers. Operating results from such services will be included in the Company's statement of operations as incurred. Since the operations sold were acquired by the Company in a transaction accounted for as a pooling of interests, the gain on the sales of the operations of NETCOM is classified as an extraordinary item in the Company's consolidated statement of operations.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Discontinued Operations and Divestitures (continued)

(b) Network Services

On July 15, 1999, the Company's board of directors adopted a formal plan to dispose of the Company's investments in its wholly-owned subsidiaries, ICG Fiber Optic Technologies, Inc. and Fiber Optic Technologies of the Northwest, Inc. (collectively, Network Services). Accordingly, the Company's consolidated financial statements reflect the operations of Network Services as discontinued for all periods presented. During the three months ended June 30, 1999, the Company accrued approximately \$8.0 million for estimated losses on the disposal of Network Services, including approximately \$0.3 million for estimated operating losses of Network Services during the phase out period. On October 22, 1999, the Company completed the sale of all of the capital stock of Network Services to ACS Communications, Inc. for total proceeds of \$23.9 million in cash. For the year ended December 31, 1999, the Company recorded a loss on the disposal of Network Services of \$10.9 million. The Company has included in its loss on disposal of Network Services income from operations of \$0.8 million of Network Services from July 15, 1999 through the date of sale.

(c) Satellite Services

On July 15, 1999, the Company's board of directors adopted a formal plan to dispose of the Company's investments in ICG Satellite Services, Inc. and Maritime Telecommunications Network, Inc. (collectively, Satellite Services). Accordingly, the Company's consolidated financial statements reflect the operations of Satellite Services as discontinued for all periods presented. On November 30, 1999, the Company completed the sale of all of the capital stock of Satellite Services to ATC Teleports, Inc. for total proceeds of \$98.1 million in cash. For the year ended December 31, 1999, the Company recorded a gain on the disposal of Satellite Services of \$48.7 million net of income taxes of approximately \$4.7 million. Offsetting the gain on the sale is \$0.7 million in net losses from operations of Satellite Services from July 15, 1999 through the date of sale.

On July 17, 1998, the Company entered into separate definitive agreements to sell the capital stock of MCN and Nova-Net

Communications, Inc. (Nova-Net), two wholly owned subsidiaries within the Company's Satellite Services operations. The sale of MCN was completed on August 12, 1998. The Company recorded a gain on the sale of MCN of approximately \$0.9 million during the year ended December 31,

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ICG COMMUNICATIONS, INC.  
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Notes to Consolidated Financial Statements, Continued

(3) Discontinued Operations and Divestitures (continued)

1998. The sale of Nova-Net was completed on November 18, 1998. The Company recorded a loss on the sale of Nova-Net of approximately \$0.2 million during the year ended December 31, 1998.

(d) Zycom

The Company owns a 70% interest in Zycom Corporation (Zycom) which, through its wholly owned subsidiary, Zycom Network Services, Inc. (ZNSI), operated an 800/888/900 number services bureau and a switch platform in the United States and supplied information providers and commercial accounts with audiotext and customer support services. In June 1998, Zycom was notified by its largest customer of the customer's intent to transfer its call traffic to another service bureau. In order to minimize the obligation that this loss in call traffic would generate under Zycom's volume discount agreements with AT&T Corp. (AT&T), its call transport provider, ZNSI entered into an agreement on July 1, 1998 with an unaffiliated entity, ICN Limited (ICN), whereby ZNSI assigned the traffic of its largest audiotext customer and its other 900-number customers to ICN, effective October 1, 1998. As part of this agreement, ICN assumed all minimum call traffic volume obligations to AT&T.

The call traffic assigned to ICN represented approximately 86% of Zycom's revenue for the year ended December 31, 1998. The loss of this significant portion of Zycom's business, despite management's best efforts to secure other sources of revenue, raised substantial doubt as to Zycom's ability to operate in a manner which would benefit Zycom's or the Company's shareholders. Accordingly, on August 25, 1998, Zycom's board of directors approved a plan to wind down and ultimately discontinue Zycom's operations. On October 22, 1998, Zycom completed the transfer of all customer traffic to other providers. On January 4, 1999, the Company completed the sale of the remainder of Zycom's long-lived operating assets to an unrelated third party for total proceeds of \$0.2 million. As Zycom's assets were recorded at estimated fair market value at December 31, 1998, no gain or loss was recorded on the sale during the year ended December 31, 1999.

The Company's consolidated financial statements reflect the operations of Zycom as discontinued for all periods presented. Zycom reported net losses from operations of approximately \$1.2 million for the period from August 25, 1998 to December 31, 1998 and reported no income or losses from operations for the year ended December 31, 1999. The Company has accrued for all expected future net losses of Zycom.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (3) Discontinued Operations and Divestitures (continued)

Included in net current liabilities and net non-current assets of discontinued operations in the Company's consolidated balance sheets are the following accounts of Zycom:

	December 31,	
	1998	1999
	(in thousands)	
Cash and cash equivalents	\$ 47	-
Receivables, net	90	-
Prepaid expenses and deposits	11	-
Accounts payable and accrued liabilities	(1,092)	(529)
	-----	-----
Net current liabilities of Zycom	\$ (944)	(529)
	=====	=====
Net non-current assets of Zycom - property and equipment, net	\$ 220	-
	=====	=====

## (4) Purchase Acquisitions

The acquisitions described below have been accounted for using the purchase method of accounting and, accordingly, the net assets and results of operations of the acquired businesses are included in the Company's consolidated financial statements from the respective dates of acquisition. Revenue, net loss and net loss per share on a pro forma basis, assuming the acquisitions were completed at the beginning of the periods presented, are not significantly different from the Company's historical results for the periods presented herein.

On July 27, 1998, the Company acquired DataChoice Network Services, L.L.C. (DataChoice) for total consideration of \$5.9 million, consisting of 145,997 shares of ICG Common Stock and approximately \$1.1 million in cash. The excess of the purchase price over the fair value of the net identifiable assets acquired of \$5.8 million has been recorded as goodwill and is being amortized on a straight-line basis over five years. DataChoice, a Colorado limited liability company, provides point-to-point data transmission resale services through its long-term agreements with multiple regional carriers and nationwide providers.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (4) Purchase Acquisitions (continued)

The Company completed a series of transactions on July 30, 1998 to acquire NikoNet, Inc., CompuFAX Acquisition Corp. and Enhanced Messaging Services, Inc. (collectively, NikoNet). The Company paid approximately \$13.8 million in cash, which included dividends payable by NikoNet to its former owners and amounts to satisfy NikoNet's former line of credit, assumed approximately \$0.7 million in liabilities and issued 356,318 shares of ICG Common Stock with a fair market value of approximately \$10.7 million on the date of the acquisition, for all the capital stock of NikoNet. The excess

of the purchase price over the fair value of the net identifiable assets acquired of \$22.6 million has been recorded as goodwill and is being amortized on a straight-line basis over five years. Located in Atlanta, Georgia, NikoNet provides broadcast facsimile services and enhanced messaging services to financial institutions, corporate investor and public relations departments and other customers. The Company believes the acquisition of NikoNet enables the Company to offer expanded services to its Telecom Services customers.

On August 27, 1998, the Company purchased, for \$9.0 million in cash, the remaining 20% equity interest in ICG Ohio LINX, Inc. (ICG Ohio LINX) which it did not already own. ICG Ohio LINX is a facilities-based competitive local exchange carrier which operates a fiber optic telecommunications network in Cleveland and Dayton, Ohio. The Company's additional investment in ICG Ohio LINX, including incremental costs of obtaining that investment of \$0.1 million, is included in goodwill in the accompanying consolidated balance sheets.

In January 1997, the Company announced a strategic alliance with Central and South West Corporation (CSW) formed for the purpose of developing and marketing telecommunications services in certain cities in Texas. Based in Austin, Texas, the venture entity was a limited partnership named CSW/ICG ChoiceCom, L.P. (ChoiceCom). On December 31, 1998, the Company purchased 100% of the partnership interests in ChoiceCom from CSW for approximately \$55.7 million in cash and the assumption of certain liabilities of approximately \$9.1 million. In addition, the Company converted approximately \$31.6 million of receivables from prior advances made to ChoiceCom by the Company to its investment in ChoiceCom. The excess of the purchase price over the fair value of the net identifiable assets acquired of \$29.4 million has been recorded as goodwill and is being amortized on a straight-line basis over 10 years. The acquired company currently provides local exchange and long distance services in Austin, Corpus Christi, Dallas, Houston and San Antonio, Texas.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(4) Purchase Acquisitions (continued)

On October 17, 1997, the Company purchased approximately 91% of the outstanding capital stock of Communications Buying Group, Inc. (CBG), an Ohio based local exchange and Centrex reseller. The Company paid total consideration of approximately \$46.5 million, plus the assumption of certain liabilities. Separately, on October 17, 1997, the Company sold 687,221 shares of ICG Common Stock for approximately \$16.0 million to certain shareholders of CBG. On March 24, 1998, the Company purchased the remaining approximate 9% interest in CBG for approximately \$2.9 million in cash. The excess of the purchase price over the fair value of the net identifiable assets acquired in the combined transactions of \$48.9 million has been recorded as goodwill and was initially being amortized on a straight-line basis over six years. Due to unanticipated turnover in CBG's customer base existing at the time of the acquisition, the Company shortened the estimated useful life of goodwill associated with the acquisition of CBG to four years during the year ended December 31, 1999.

(5) Short-term Investments Available for Sale

Short-term investments available for sale are comprised of the following:

	December 31,	
	1998	1999
	(in thousands)	
Certificates of deposit	\$31,000	10,442
Commercial paper	16,000	11,777
U.S. Treasury securities	5,000	-
	\$52,000	22,219
	=====	=====

At December 31, 1998 and 1999, the estimated fair value of the Company's certificates of deposit, commercial paper and U.S. Treasury securities approximated cost. All certificates of deposit, commercial paper and U.S. Treasury securities included in short-term investments available for sale mature within one year.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(6) Property and Equipment

Property and equipment, including assets held under capital leases, is comprised of the following:

	December 31,	
	1998	1999
	(in thousands)	
Land	\$ 709	11,503
Buildings and improvements	2,296	38,502
Furniture, fixtures and office equipment	54,859	108,024
Internal-use software costs	13,655	14,797
Machinery and equipment	20,155	32,884
Fiber optic equipment	278,596	401,676
Switch equipment	180,022	319,398
Fiber optic network	231,615	428,195
Site improvements	25,004	37,814
Service installation costs	20,679	52,649
Construction in progress	236,522	359,936
	1,064,112	1,805,378
Less accumulated depreciation	(156,054)	(279,698)
	\$ 908,058	1,525,680
	=====	=====

Property and equipment includes approximately \$359.9 million of equipment which has not been placed in service at December 31, 1999, and accordingly, is not being depreciated. The majority of this amount is related to uninstalled transport and switch equipment, software development and new

network construction.

For the years ended December 31, 1997, 1998 and 1999, the Company capitalized interest costs on assets under construction of \$3.2 million, \$10.4 million and \$9.0 million, respectively. Such costs are included in property and equipment as incurred. The Company recognized interest expense of \$117.5 million, \$170.0 million and \$212.4 million for the years ended December 31, 1997, 1998 and 1999, respectively.

Also included in property and equipment at December 31, 1998 and 1999 are remaining unamortized costs associated with the development of internal-use computer software of \$11.7 million and \$17.9 million, respectively. The Company capitalized \$2.4 million, \$10.0

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(6) Property and Equipment (continued)

million and \$31.6 million of such costs during the years ended December 31, 1997, 1998 and 1999, respectively.

Certain of the assets described above have been pledged as security for long-term debt, specifically, substantially all of the assets of ICG Services were pledged as of December 31, 1999.

The following is a summary of property and equipment held under capital leases or acquired pursuant to an IRU agreement as of December 31, 1999:

	December 31,	
	1998	1999
	(in thousands)	
Machinery and equipment	\$ 6,419	5,270
Fiber optic equipment	798	581
Switch equipment	12,957	14,819
Fiber optic network	77,523	203,556
	97,697	224,226
Less accumulated depreciation	(7,816)	(19,575)
	\$89,881	204,651
	=====	=====

Amortization of capital leases is included in depreciation and amortization in the Company's consolidated statements of operations for all periods presented.

(7) Investments

On March 30, 1999, the Company purchased, for approximately \$10.0 million in cash, 454,545 shares of restricted Series D-1 Preferred Stock of NorthPoint Communications Holdings, Inc., a Delaware corporation and competitive local exchange carrier (CLEC) based in San Francisco, California (NorthPoint) which was converted into 555,555 shares of Class B

common stock of NorthPoint (the NorthPoint Class B Shares) on May 5, 1999. The NorthPoint Class B Shares are convertible on or after March 31, 2000 on a one-for-one basis into a voting class of common stock of NorthPoint. The Company is accounting for its investment in NorthPoint under the cost method of accounting until the NorthPoint Class B Shares are converted into voting and tradable common stock of NorthPoint.

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ICG COMMUNICATIONS, INC.  
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Notes to Consolidated Financial Statements, Continued

(7) Investments (continued)

On August 11, 1999, the Company purchased 1,250,000 shares of Series C Preferred Stock (the ThinkLink Preferred Stock) of International ThinkLink Corporation (ThinkLink), for \$1.0 million in cash. The ThinkLink Preferred Stock will automatically convert to common stock upon the completion of the initial public offering of the common stock of ThinkLink or upon election to convert by the holders of a majority of the ThinkLink Preferred Stock. The conversion rate from the ThinkLink Preferred Stock to common stock of ThinkLink is initially one-for-one; however, such conversion rate is subject to adjustment. The Company has accounted for its investment in ThinkLink under the cost method of accounting. Dividends on the ThinkLink Preferred Stock will be included in income when paid. ThinkLink is an Internet and enhanced services provider.

On November 15, 1999, the Company entered into an agreement to purchase a limited partnership interest in Centennial Strategic Partners VI, L.P. (Centennial). The primary purpose of the partnership is to invest in venture capital investments, principally by investing in equity or equity-oriented securities of privately held companies in the electronic communications industry. The Company has capital contribution commitments to Centennial of \$1.0 million to be funded in installments through January 15, 2002. Through December 31, 1999, the Company had contributed approximately \$0.3 million to the partnership. The Company has accounted for its investment in Centennial under the cost method of accounting.

Investments in debt securities available for sale, partnership interests and restricted and exchangeable common and preferred stock at December 31, 1999 includes approximately \$17.7 million of available for sale investments in U.S. Treasury securities, which mature in periods in excess of one year.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(8) Other Assets

Other assets are comprised of the following:

December 31,	
1998	1999
(in thousands)	

Deposits	\$14,896	3,448
Collocation costs	5,472	12,771
Right of entry costs	2,684	2,654
Non-compete agreements	800	-
Other	206	830
	-----	-----
	24,058	19,703
Less accumulated amortization	(1,734)	(2,935)
	-----	-----
	\$22,324	16,768
	=====	=====

## (9) Capital Lease Obligations

The Company has payment obligations under various capital lease agreements for property and equipment. Required payments due each year on or before December 31 under the Company's capital lease obligations are as follows (in thousands):

2000	\$ 17,454
2001	17,569
2002	12,200
2003	12,056
2004	12,040
Thereafter	85,716
	-----
Total minimum lease payments	157,035
Less amounts representing interest	(85,597)
	-----
Present value of net minimum lease payments	71,438
Less current portion	(8,090)
	-----
	\$ 63,348
	=====

In December 1999, the Company entered into a maximum 20-year agreement with a major interexchange carrier to lease approximately 18,000 miles of long-haul capacity in various regions of the United States for \$140.1 million, payable in installments through June 2000. The discounted value of the Company's remaining payments on the lease of \$135.3 million is included in payable pursuant to IRU agreement in the accompanying consolidated balance sheet at December 31, 1999.

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ICG COMMUNICATIONS, INC.  
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Notes to Consolidated Financial Statements, Continued

## (10) Long-term Debt

Long-term debt is summarized as follows:

December 31,	
-----	-----
1998	1999

	(in thousands)	
Senior Facility with adjustable rate of interest due on scheduled maturity dates, secured by assets of ICG Equipment and NetAhead (a)	\$ -	79,625
9 7/8% Senior discount notes of ICG Services, net of discount (b)	266,918	293,925
10% Senior discount notes of ICG Services, net of discount (c)	327,699	361,290
11 5/8% Senior discount notes of Holdings, net of discount (d)	122,528	137,185
12 1/2% Senior discount notes of Holdings, net of discount (e)	414,864	468,344
13 1/2% Senior discount notes of Holdings, net of discount (f)	465,886	532,252
Mortgage payable with interest at 8 1/2%, due monthly through 2009, secured by building	1,084	999
Mortgage loan payable with adjustable rate of interest (14.77% at December 31, 1999) due in full on January 31, 2013, secured by corporate headquarters (g)	-	33,077
Other	65	-
	1,599,044	1,906,697
Less current portion	(46)	(796)
	\$1,598,998	1,905,901

## (a) Senior Facility

On August 12, 1999 and amended on December 29, 1999, ICG Equipment and NetAhead entered into a \$200.0 million senior secured financing facility (Senior Facility) consisting of a \$75.0 million term loan, a \$100.0 million term loan and a \$25.0 million revolving line of credit. The Senior Facility is guaranteed by ICG Services and is secured by the assets of ICG Equipment and NetAhead.

As required under the terms of the loan, the Company borrowed on August 12, 1999 the available \$75.0 million on the \$75.0 million term loan. The loan bears interest at an annual interest rate of LIBOR plus 3.5% or the base rate, as defined in the credit agreement, plus 2.5%, at the Company's option. At December 31, 1999, the \$75.0

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ICG COMMUNICATIONS, INC.  
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Notes to Consolidated Financial Statements, Continued

## (10) Long-term Debt (continued)

million term loan bears annual interest at LIBOR plus 3.5%, or 9.67%. Quarterly repayments commenced September 30, 1999 and require quarterly loan balance reductions of 0.25% through June 30, 2005 with the remaining outstanding balance to be repaid during the final three quarters of the loan term. The \$75.0 million term loan matures on March 31, 2006. At December 31, 1999, the Company has \$74.6 million outstanding under the \$75.0 million term loan.

On August 12, 1999, the Company borrowed \$5.0 million on the \$100.0 million term loan. The \$100.0 million term loan is available for borrowing through August 10, 2000 at an initial annual interest rate of LIBOR plus 3.125% or the base rate, as defined in the credit agreement, plus 2.125%, at the Company's option. At December 31, 1999, the \$5.0 million outstanding under the \$100.0 million term loan bears annual interest at LIBOR plus 3.125%, or 9.35%. Quarterly repayments commence September 30, 2002 and require aggregate loan balance reductions of 25% through June 30, 2003, 35% through June 30, 2004 and 40% through June 30, 2005. The \$100.0 million term loan matures on June 30, 2005.

The \$25.0 million revolving line of credit is available through the maturity date of June 30, 2005 at an initial annual interest rate of LIBOR plus 3.125% or the base rate, as defined in the credit agreement, plus 2.125%, at the Company's option.

The Company is required to pay commitment fees ranging from 0.625% to 1.375% for the unused portion of available borrowings under the Senior Facility.

The terms of the Senior Facility provide certain limitations on the use of proceeds, additional indebtedness, dividends, prepayment of the Senior Facility and other indebtedness and certain other transactions. Additionally, the Company is subject to certain financial covenants based on its results of operations. During the year ended December 31, 1999, certain defined terms in the credit agreement for the Senior Facility were amended to ensure that the Company would remain in compliance with the financial covenants of the Senior Facility.

(b) 9 7/8% Notes

On April 27, 1998, ICG Services completed a private placement of 9 7/8% Senior Discount Notes due 2008 (the 9 7/8% Notes) for gross proceeds of approximately

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(10) Long-term Debt (continued)

\$250.0 million. Net proceeds from the offering, after underwriting and other offering costs of approximately \$7.9 million, were approximately \$242.1 million.

The 9 7/8% Notes are unsecured senior obligations of ICG Services that mature on May 1, 2008, at a maturity value of \$405.3 million. Interest will accrue at 9 7/8% per annum, beginning May 1, 2003, and is payable each May 1 and November 1, commencing November 1, 2003. The indenture for the 9 7/8% Notes contains certain covenants which provide limitations on indebtedness, dividends, asset sales and certain other transactions.

The 9 7/8% Notes were originally recorded at approximately \$250.0 million. The discount on the 9 7/8% Notes is being accreted through May 1, 2003, the date on which the 9 7/8% Notes may first be redeemed. The accretion of the discount and the amortization of the debt issuance costs are included in interest expense in the accompanying consolidated statements of operations.

(c) 10% Notes

On February 12, 1998, ICG Services completed a private placement of 10% Senior Discount Notes due 2008 (the 10% Notes) for gross proceeds of approximately \$300.6 million. Net proceeds from the offering, after underwriting and other offering costs of approximately \$9.7 million, were approximately \$290.9 million.

The 10% Notes are unsecured senior obligations of ICG Services that mature on February 15, 2008, at a maturity value of \$490.0 million. Interest will accrue at 10% per annum, beginning February 15, 2003, and is payable each February 15 and August 15, commencing August 15, 2003. The indenture for the 10% Notes contains certain covenants

which provide limitations on indebtedness, dividends, asset sales and certain other transactions.

The 10% Notes were originally recorded at approximately \$300.6 million. The discount on the 10% Notes is being accreted through February 15, 2003, the date on which the 10% Notes may first be redeemed. The accretion of the discount and the amortization of the debt issuance costs are included in interest expense in the accompanying consolidated statements of operations.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(10) Long-term Debt (continued)

(d) 11 5/8% Notes

On March 11, 1997, Holdings completed a private placement (the 1997 Private Offering) of 11 5/8% Senior Discount Notes due 2007 (the 11 5/8% Notes) and 14% Exchangeable Preferred Stock Mandatorily Redeemable 2008 (the 14% Preferred Stock) for gross proceeds of \$99.9 million and \$100.0 million, respectively. Net proceeds from the 1997 Private Offering, after costs of approximately \$7.5 million, were approximately \$192.4 million.

The 11 5/8% Notes are unsecured senior obligations of Holdings (guaranteed by ICG) that mature on March 15, 2007, at a maturity value of \$176.0 million. Interest will accrue at 11 5/8% per annum, beginning March 15, 2002, and is payable each March 15 and September 15, commencing September 15, 2002. The indenture for the 11 5/8% Notes contains certain covenants which provide for limitations on indebtedness, dividends, asset sales and certain other transactions and effectively prohibit the payment of cash dividends.

The 11 5/8% Notes were originally recorded at approximately \$99.9 million. The discount on the 11 5/8% Notes is being accreted through March 15, 2002, the date on which the 11 5/8% Notes may first be redeemed. The accretion of the discount and the amortization of the debt issuance costs are included in interest expense in the accompanying consolidated statements of operations.

(e) 12 1/2% Notes

On April 30, 1996, Holdings completed a private placement (the 1996 Private Offering) of 12 1/2% Senior Discount Notes due 2006 (the 12 1/2% Notes) and of 14 1/4% Exchangeable Preferred Stock Mandatorily Redeemable 2007 (the 14 1/4% Preferred Stock) for gross proceeds of \$300.0 million and \$150.0 million, respectively. Net proceeds from the 1996 Private Offering, after issuance costs of approximately \$17.0 million, were approximately \$433.0 million.

The 12 1/2% Notes are unsecured senior obligations of Holdings (guaranteed by ICG and Holdings-Canada) that mature on May 1, 2006, with a maturity value of \$550.3 million. Interest will accrue at 12 1/2% per annum, beginning May 1, 2001, and is payable each May 1 and November 1, commencing November 1, 2001. The indenture for the 12 1/2% Notes contains certain covenants which provide for

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (10) Long-term Debt (continued)

limitations on indebtedness, dividends, asset sales and certain other transactions and effectively prohibit the payment of cash dividends.

The 12 1/2% Notes were originally recorded at approximately \$300.0 million. The discount on the 12 1/2% Notes is being accreted through May 1, 2001, the date on which the 12 1/2% Notes may first be redeemed. The accretion of the discount and the amortization of the debt issuance costs are included in interest expense in the accompanying consolidated statements of operations.

## (f) 13 1/2% Notes

On August 8, 1995, Holdings completed a private placement (the 1995 Private Offering) through the issuance of 58,430 units (the Units), each Unit consisting of ten \$1,000, 13 1/2% Senior Discount Notes due 2005 (the 13 1/2% Notes) and warrants to purchase 33 common shares of Holdings-Canada (the Unit Warrants). Net proceeds from the 1995 Private Offering, after issuance costs of approximately \$14.0 million, were approximately \$286.0 million.

The 13 1/2% Notes are unsecured senior obligations of Holdings (guaranteed by ICG and Holdings-Canada) that mature on September 15, 2005, with a maturity value of \$584.3 million. Interest will accrue at the rate of 13 1/2% per annum, beginning September 15, 2000, and is payable in cash each March 15 and September 15, commencing March 15, 2001. The indenture for the 13 1/2% Notes contains certain covenants which provide for limitations on indebtedness, dividends, asset sales and certain other transactions and effectively prohibit the payment of cash dividends.

The 13 1/2% Notes were originally recorded at approximately \$294.0 million, which represents the \$300.0 million in proceeds less the approximate \$6.0 million value assigned to the Unit Warrants, which is included in additional paid-in capital. The discount on the 13 1/2% Notes is being accreted over five years until September 15, 2000, the date on which the 13 1/2% Notes may first be redeemed. The value assigned to the Unit Warrants, representing additional debt discount, is also being accreted over the five-year period. The accretion of the total discount and the amortization of the debt issuance costs are included in interest expense in the accompanying consolidated statements of operations. Holdings may redeem the 13 1/2% Notes on or after September 15, 2000, in whole or in part, at the redemption prices set forth in the agreement, plus unpaid interest, if any, at the date of redemption.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (10) Long-term Debt (continued)

The Unit Warrants entitled the holder to purchase one common share of Holdings-Canada, which was exchangeable into one share of ICG Common Stock, through August 8, 2005 at the exercise price of \$12.51 per

share. In connection with the Reorganization of Holdings-Canada, all Unit Warrants outstanding are exchangeable only for shares of ICG Common Stock on a one-for-one basis and are no longer exchangeable for shares of Holdings-Canada.

(g) Mortgage Loan Payable

Effective January 1, 1999, the Company purchased its corporate headquarters, land and improvements (collectively, the Corporate Headquarters) for approximately \$43.4 million. The Company, through a newly formed subsidiary, financed the purchase primarily through a loan secured by a mortgage on the Corporate Headquarters, guaranteed by ICG Services, Inc. The amended loan agreement, dated May 1, 1999, requires monthly interest payments at an initial interest rate of 14.77% per annum, which rate increases annually by 0.003% with the mortgage balance due January 31, 2013. The seller of the Corporate Headquarters has retained an option to repurchase the Corporate Headquarters at the original sales price, which option is exercisable from January 1, 2004 through January 31, 2012.

Scheduled principal maturities of long-term debt as of December 31, 1999 are as follows (in thousands):

Year:	
2000	\$ 796
2001	800
2002	800
2003	800
2004	800
Thereafter	2,315,556
	-----
	2,319,552
Less unaccreted discount	(412,855)
Less current portion	(796)
	-----
	\$1,905,901
	=====

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(11) Redeemable Preferred Securities of Subsidiaries

Redeemable preferred stock of subsidiary is summarized as follows:

	December 31,	
	1998	1999
	-----	
	(in thousands)	
14% Exchangeable preferred stock of Holdings, mandatorily redeemable in 2008 (a)	\$124,867	144,144
14 1/4% Exchangeable preferred stock of Holdings, mandatorily redeemable in 2007 (b)	213,443	246,751
	-----	-----
	\$338,310	390,895
	=====	=====

## (a) 14% Preferred Stock

In connection with the 1997 Private Offering, Holdings sold 100,000 shares of exchangeable preferred stock that bear a cumulative dividend at the rate of 14% per annum. The dividend is payable quarterly in arrears each March 15, June 15, September 15 and December 15, and commenced June 15, 1997. Through March 15, 2002, the dividend is payable at the option of Holdings in cash or additional shares of 14% Preferred Stock. All dividends paid through December 31, 1999 have been paid through the issuance of additional shares of 14% Preferred Stock. Holdings may exchange the 14% Preferred Stock into 14% Senior Subordinated Exchange Debentures at any time after the exchange is permitted by certain indenture restrictions. The 14% Preferred Stock is subject to mandatory redemption on March 15, 2008.

## (b) 14 1/4% Preferred Stock

In connection with the 1996 Private Offering, Holdings sold 150,000 shares of exchangeable preferred stock that bear a cumulative dividend at the rate of 14 1/4% per annum. The dividend is payable quarterly in arrears each February 1, May 1, August 1 and November 1, and commenced August 1, 1996. Through May 1, 2001, the dividend is payable, at the option of Holdings, in cash or additional shares of 14 1/4% Preferred Stock. Holdings may exchange the 14 1/4% Preferred Stock into 14 1/4% Senior Subordinated Exchange Debentures at any time after the exchange is permitted by certain indenture restrictions. The 14 1/4% Preferred Stock is subject to mandatory redemption on May 1, 2007.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

## (11) Redeemable Preferred Securities of Subsidiaries (continued)

## (c) 6 3/4% Preferred Securities

On September 24, 1997 and October 3, 1997, ICG Funding completed a private placement of 6 3/4% Exchangeable Limited Liability Company Preferred Securities Mandatorily Redeemable 2009 (the 6 3/4% Preferred Securities) for gross proceeds of \$132.25 million. Net proceeds from the private placement, after offering costs of approximately \$4.7 million, were approximately \$127.6 million. Included in restricted cash at December 31, 1999 is \$8.7 million which consists of the proceeds from the private placement which are designated for the payment of cash dividends on the 6 3/4% Preferred Securities through November 15, 2000.

The 6 3/4% Preferred Securities consist of 2,645,000 exchangeable preferred securities of ICG Funding that bear a cumulative dividend at the rate of 6 3/4% per annum. The dividend is paid quarterly in arrears each February 15, May 15, August 15 and November 15, and commenced November 15, 1997. The dividend is payable in cash through November 15, 2000 and, thereafter, in cash or shares of ICG Common Stock, at the option of ICG Funding. The 6 3/4% Preferred Securities are exchangeable, at the option of the holder, at any time prior to November 15, 2009 into shares of ICG Common Stock at an exchange rate of 2.0812 shares of ICG Common Stock per preferred security, or \$24.025 per share, subject to adjustment. ICG Funding may, at its

option, redeem the 6 3/4% Preferred Securities at any time on or after November 18, 2000. Prior to that time, ICG Funding may redeem the 6 3/4% Preferred Securities if the current market value of ICG Common Stock equals or exceeds the exchange price by 150%, for at least 20 days of any 30-day trading period, through November 15, 2000. The 6 3/4% Preferred Securities are subject to mandatory redemption on November 15, 2009.

On February 13, 1998, ICG made a capital contribution of 126,750 shares of ICG Common Stock to ICG Funding. Immediately thereafter, ICG Funding sold the contributed shares to unrelated third parties for proceeds of approximately \$3.4 million. ICG Funding recorded the contribution of the ICG Common Stock as additional paid-in capital at the then fair market value and, consequently, no gain or loss was recorded by ICG Funding on the subsequent sale of those shares.

Also, on February 13, 1998, ICG Funding used the remaining proceeds from the private placement of the 6 3/4% Preferred Securities, which were not restricted for the payment of cash dividends, along with the proceeds from the sale of the

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(11) Redeemable Preferred Securities of Subsidiaries (continued)

contributed ICG Common Stock to purchase approximately \$112.4 million of ICG Communications, Inc. Preferred Stock (ICG Preferred Stock) which pays dividends each February 15, May 15, August 15 and November 15 in additional shares of ICG Preferred Stock through November 15, 2000. Subsequent to November 15, 2000, dividends on the ICG Preferred Stock are payable in cash or shares of ICG Common Stock, at the option of ICG. The ICG Preferred Stock is exchangeable, at the option of ICG Funding, at any time prior to November 15, 2009 into shares of ICG Common Stock at an exchange rate based on the exchange rate of the 6 3/4% Preferred Securities and is subject to mandatory redemption on November 15, 2009. The ICG Preferred Stock has been eliminated in consolidation of the Company's consolidated financial statements.

The accreted value of the 6 3/4% Preferred Securities is included in Company-obligated mandatorily redeemable preferred securities of subsidiary limited liability company which solely holds Company preferred stock in the accompanying consolidated balance sheets.

Included in accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses is approximately \$39.8 million, \$55.2 million and \$61.9 million for the years ended December 31, 1997, 1998 and 1999, respectively, associated with the accretion of issuance costs, discount and preferred security dividend accruals for the 6 3/4% Preferred Securities, the 14% Preferred Stock and the 14 1/4% Preferred Stock and the Redeemable Preferred Stock. These costs are partially offset by the minority interest share in losses of subsidiaries of approximately \$1.7 million for the year ended December 31, 1997. There was no reported minority interest share in losses of subsidiaries for the years ended December 31, 1998 or 1999.

(12) Stockholders' Deficit

(a) Stock Options and Employee Stock Purchase Plan

During the fiscal years ended September 30, 1991, 1992 and 1993, the

Company's board of directors approved incentive stock option plans and replenishments to those plans which provide for the granting of options to directors, officers, employees and consultants of the Company to purchase 285,000, 724,400 and 1,692,700 shares, respectively, of the Company's Common Stock, with exercise prices between 80% and 100% of the fair value of the shares at the date of grant. A total of 1,849,600

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(12) Stockholders' Deficit (continued)

options, net of cancellations, have been granted under these plans through December 31, 1999 with exercise prices ranging from approximately \$2.92 to \$14.03. Compensation expense has been recorded for options granted at an exercise price below the fair market value of the Company's Common Stock at the date of grant, pursuant to the provisions of APB 25. The options granted under these plans are subject to various vesting requirements and expire in five and ten years from the date of grant.

The NETCOM 1993 Stock Option Plan was assumed by ICG at the time of the merger, and approved by ICG's board of directors as an incentive and non-qualified stock option plan which provides for the granting of options to certain directors, officers and employees to purchase 2,720,901 shares of ICG Common Stock. A total of 2,073,277 options, net of cancellations, have been granted under this plan through December 31, 1999 at exercise prices ranging from \$0.56 to \$79.50, none of which were less than 100% of the fair market value of the shares underlying options on the date of grant, and accordingly, no compensation expense was recorded for these options under APB 25. The options granted under this plan are subject to various vesting requirements, generally three and five years, and expire within ten years from the date of grant.

From the fiscal year ended September 30, 1994 through the year ended December 31, 1998, the Company's board of directors approved incentive and non-qualified stock option plans and replenishments to those plans which provide for the granting of options to certain directors, officers and employees to purchase 2,536,000 shares of the Company's Common Stock under the 1994 plan, an aggregate of 2,700,000 shares of the Company's Common Stock under the 1995 and 1996 plans and 3,400,000 shares of ICG Common Stock under the 1998 plan. A total of 7,808,496 options, net of cancellations, have been granted under these plans through December 31, 1999 at original exercise prices ranging from \$7.94 to \$35.75, none of which were less than 100% of the fair market value of the shares underlying options on the date of grant, and accordingly, no compensation expense was recorded for these options under APB 25. The options granted under these plans are subject to various vesting requirements and expire in five and ten years from the date of grant.

Additionally, during the year ended December 31, 1999, the Company's board of directors granted 696,836 non-qualified stock options, net of cancellations through December 31, 1999, to certain officers and employees at exercise prices ranging from \$14.44 to \$23.19, none of which were less than 100% of the fair market value of the shares underlying options on the date of grant, and accordingly, no

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (12) Stockholders' Deficit (continued)

compensation expense was recorded for these options under APB 25. The non-qualified options granted during the year ended December 31, 1999 are subject to various vesting requirements and expire in ten years from the date of grant.

In order to continue to provide non-cash incentives and retain key employees, all employee stock options outstanding on April 16, 1997 with exercise prices at or in excess of \$15.875 were canceled by the Stock Option Committee of the Company's board of directors and regranted with an exercise price of \$10.375, the closing price of ICG Common Stock on the Nasdaq National Market on April 16, 1997. Approximately 598,000 options, with original exercise prices ranging from \$15.875 to \$26.25, were canceled and regranted on April 16, 1997. For the same business purpose, all employee stock options outstanding on September 18, 1998 with exercise prices at or in excess of \$22.00 were canceled by the Stock Option Committee of the Company's board of directors and regranted with an exercise price of \$16.875, the closing price of ICG Common Stock on the Nasdaq National Market on September 18, 1998. A total of 2,413,260 options, with original exercise prices ranging from \$22.00 to \$35.75 were canceled and regranted on September 18, 1998. There was no effect on the Company's consolidated financial statements as a result of the cancellation and regranting of options.

In October 1996, the Company established an Employee Stock Purchase Plan whereby employees can elect to designate 1% to 30% of their annual salary to be used to purchase shares of ICG Common Stock, up to a limit of \$25,000 in ICG Common Stock each year, at a 15% discount to fair market value. Stock purchases occur four times a year on February 1, May 1, August 1 and November 1, with the price per share equaling the lower of 85% of the market price at the beginning or end of the offering period. The Company is authorized to issue a total of 1,000,000 shares of ICG Common Stock to participants in the plan. During the years ended December 13, 1997, 1998 and 1999, the Company sold 109,213, 111,390 and 205,568 shares of ICG Common Stock, respectively, to employees under this plan.

The Company has recorded no compensation expense in connection with its stock-based employee and non-employee director compensation plans pursuant to the intrinsic value based method of APB 25 for the periods presented. Had compensation expense for the Company's plans been determined based on the fair market value of the options at the grant dates for awards under those plans consistent with the provisions of SFAS 123, the Company's pro forma net loss and loss per share would have been as presented below. Pro forma disclosures include the

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (12) Stockholders' Deficit (continued)

effects of employee and non-employee director stock options granted

during the periods presented.

	Years ended December 31,		
	1997	1998	1999
	(in thousands, except per share amounts)		
Net loss:			
As reported	\$ (360,735)	(418,045)	(234,162)
Pro forma	(369,677)	(439,362)	(259,362)
Net loss per share -- basic and diluted:			
As reported	\$ (8.49)	(9.25)	(4.97)
Pro forma	(8.70)	(9.72)	(5.50)

The fair value of each option grant to employees and non-employee directors other than NETCOM employees and non-employee directors was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: an expected option life of three years for directors, officers and other executives, and two years for other employees, for all periods; expected volatility of 50% for the year ended December 31, 1997, 70% for the years ended December 31, 1998 and 1999; and risk-free interest rates ranging 5.61% to 6.74% for the year ended December 31, 1997, 4.09% to 5.77% for the year ended December 31, 1998 and 4.59% to 6.28% for the year ended December 31, 1999. Risk-free interest rates, as were currently available on the grant date, were assigned to each granted option based on the zero-coupon rate of U.S. Treasury bills to be held for the same period as the assumed option life. Since the Company does not anticipate issuing any dividends on the ICG Common Stock, the dividend yield for all options granted was assumed to be zero. The weighted average fair market value of combined ICG and NETCOM options granted during the years ended December 31, 1997, 1998 and 1999 was approximately \$10.31, \$13.23 and \$10.53 per option, respectively.

As options outstanding at December 31, 1999 will continue to vest in subsequent periods and additional options are expected to be awarded under existing and new plans, the above pro forma results are not necessarily indicative of the impact on net loss and net loss per share in future periods.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(12) Stockholders' Deficit (continued)

The following table summarizes the status of the Company's stock-based compensation plans:

Shares options	Weighted average exercise price	Options exercisable
(in thousands)		(in thousands)

Outstanding at January 1, 1997	6,084	\$15.68	3,476
Granted	3,377	14.94	
Exercised	(709)	8.13	
Canceled	(2,604)	25.32	
	-----		
Outstanding at December 31, 1997	6,148	11.97	3,532
Granted	5,968	23.34	
Exercised	(1,395)	12.08	
Canceled	(3,941)	25.62	
	-----		
Outstanding at December 31, 1998	6,780	13.95	3,299
Granted	3,374	18.50	
Exercised	(817)	13.55	
Canceled	(1,942)	17.70	
	-----		
Outstanding at December 31, 1999	7,395	15.06	3,142
	=====		

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(12) Stockholders' Deficit (continued)

The following table summarizes information about options outstanding at December 31, 1999:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
	(in thousands)	(in years)		(in thousands)	
\$ 2.69 - 10.00	2,027	5.51	\$ 8.30	1,937	\$ 8.30
10.38 - 16.88	2,371	7.85	15.44	966	15.36
16.94 - 19.13	1,836	9.24	18.07	151	18.07
19.19 - 30.00	1,161	8.95	21.41	88	21.41
	-----			-----	
	7,395			3,142	
	=====			=====	

(b) Warrants

Between the fiscal years ended September 30, 1993 and 1995, the Company issued a series of warrants at varying prices to purchase common shares of Holdings-Canada which, after August 5, 1996, were exchangeable on a one-for-one basis for Class A common shares of Holdings-Canada or ICG Common Stock. The following table summarizes warrant activity for the three years ended December 31, 1999:

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ICG COMMUNICATIONS, INC.  
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Notes to Consolidated Financial Statements, Continued

## (12) Stockholders' Deficit (continued)

	Outstanding warrants ----- (in thousands)	Exercise price range -----
Outstanding, January 1, 1997	2,623	\$ 7.38 - 21.51
Exercised	(599)	7.38 - 21.51
Canceled	(50)	14.50
	-----	
Outstanding, December 31, 1997	1,974	12.51 - 21.51
Exercised	(113)	12.51 - 21.51
Canceled	(9)	20.01 - 21.51
	-----	
Outstanding, December 31, 1998	1,852	12.51
Exercised	(119)	12.51
	-----	
Outstanding, December 31, 1999	1,733	12.51
	=====	

All warrants outstanding at December 31, 1999 have an expiration date of August 6, 2005 and, in connection with the reorganization of Holdings-Canada which occurred during the year ended December 31, 1998, are exchangeable only for shares of ICG Common Stock on a one-for-one basis.

## (c) Preferred Stock

The Company is authorized to issue 1,000,000 shares of preferred stock and 50,000 shares of ICG Preferred Stock. At December 31, 1999, the Company had no shares of preferred stock outstanding. All of the issued and outstanding shares of ICG Preferred Stock at December 31, 1999 are held by ICG Funding.

## (13) Related Party Transactions

During the fiscal year ended September 30, 1996, Holdings-Canada and International Communications Consulting, Inc. (ICC) entered into a consulting agreement whereby ICC provided various consulting services to the Company through December 1999.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

## (13) Related Party Transactions (continued)

During the years ended December 31, 1997, 1998 and 1999, the Company paid approximately \$1.1 million, \$1.0 million and \$0.5 million, respectively, related to this consulting agreement. William W. Becker, a stockholder and former director of the Company, is President and Chief Executive Officer of ICC.

## (14) Commitments and Contingencies

## (a) Network Capacity and Construction

In January 2000, Qwest Communications Corporation (Qwest) and the Company signed an agreement, whereby the Company will provide to

Qwest, for \$126.5 million over the initial 6-year term of the agreement, an indefeasible right of use (IRU) for designated portions of the Company's local fiber optic network. The Company will recognize revenue ratably over the term of the agreement, as the network capacity is available for use and receive payments in installments through June 18, 2000. Qwest may, at its option, extend the initial term of the agreement for an additional four-year period and an additional 10-year period for incremental payment at the time of the option exercises. In the event that the Company fails to deliver any of the network capacity by March 31, 2001, Qwest is entitled to cancel any undelivered network capacity segments and receive immediate refund of any amounts already paid to the Company for such segments.

In June 1999, the Company signed a minimum 10-year agreement to lease certain portions of its fiber optic network to Qwest for \$32.0 million, which was received in full by the Company in June 1999. The Company has accounted for the agreement as a sales-type lease and is recognizing revenue and operating costs in its consolidated financial statements on a percentage of completion basis as the network build-out is completed and is available for use. For the year ended December 31, 1999, the Company included \$18.1 million and \$3.2 million in revenue and operating costs, respectively, in its consolidated financial statements

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(14) Commitments and Contingencies (continued)

related to the agreement, including revenue attributed to maintenance services, which is recognized ratably over the term of the agreement. The Company expects the network facilities included in the agreement to be completed during the first half of 2000. Approximately \$13.9 million of the total proceeds received remain in deferred revenue in the Company's consolidated balance sheet at December 31, 1999.

In March 1996, the Company and Southern California Edison Company (SCE) entered into a 25-year agreement under which the Company will license 1,258 miles of fiber optic cable in Southern California, and can install up to 500 additional miles of fiber optic cable. This network, which will be maintained and operated primarily by the Company, stretches from Los Angeles to southern Orange County. Under the terms of this agreement, SCE is entitled to receive an annual fee for ten years, certain fixed quarterly payments, a quarterly payment equal to a percentage of certain network revenue, and certain other installation and fiber connection fees. The aggregate fixed payments remaining under the agreement totaled approximately \$125.4 million at December 31, 1999. The agreement has been accounted for as a capital lease in the accompanying consolidated balance sheets.

(b) Telecommunications Services and Line Purchase Commitments

Effective September 1998, the Company entered into two service agreements with three-year terms with WorldCom Network Services, Inc. (WorldCom). Under the Telecom Services Agreement, WorldCom provides, at designated rates, switched telecommunications services and other related services to the Company, including termination services, toll-free origination, switched access, dedicated access and travel card services. Under the Carrier Digital Services Agreement, WorldCom provides the Company, at designated rates, with the installation and operation of dedicated digital telecommunications interexchange

services, local access and other related services, which the Company believes expedites service availability to its

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(14) Commitments and Contingencies (continued)

customers. Both agreements require that the Company provide WorldCom with certain minimum monthly revenue, which if not met, would require payment by the Company for the difference between the minimum commitment and the actual monthly revenue. Additionally, both agreements limit the Company's ability to utilize vendors other than WorldCom for certain telecommunications services specified in the agreements. The Company's policy is to accrue and include in operating costs the effect of any shortfall in minimum revenue commitments under these agreements in the period in which the shortfall occurred. The Company has successfully achieved all minimum revenue commitments to WorldCom under these agreements through December 31, 1999.

In March 1999, the Company entered into an agreement with NorthPoint, which designates NorthPoint as the Company's preferred digital subscriber line (DSL) provider through June 1, 2001. Under the agreement, the Company agreed to purchase digital subscriber lines before designated intervals. The Company and NorthPoint are currently renegotiating the terms of the agreement with respect to pricing and minimum purchase levels. The Company's policy is to accrue and include in operating costs the effect of any shortfall in DSL installations under its agreement with NorthPoint in the period in which the shortfall occurred, although the Company has suspended this practice until such time that negotiations with NorthPoint are complete. Additionally, the Company sold its existing DSL equipment to NorthPoint for total proceeds of approximately \$2.7 million.

In November 1999, the Company entered into a one-year agreement with Covad Communications Company, a California-based DSL provider (Covad), to purchase DSL services from Covad. Under the agreement, the Company is required to purchase a minimum number of digital subscriber lines before designated intervals over the one-year period. In return, the Company will receive certain DSL service price discounts. Additionally, the Company will receive quarterly rebates from Covad for each line installed which meets or exceeds the designated milestone schedule. In the event that the Company fails to purchase the minimum number of digital subscriber lines at the designated intervals, Covad and the Company will renegotiate the terms of the agreement, which renegotiations may include revision of the minimum purchase levels and the elimination of DSL service price discounts. To date, the Company has met all required minimum commitments under its agreement with Covad.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(14) Commitments and Contingencies (continued)

## (c) Capital Purchase Commitments

The Company has entered into various equipment purchase agreements with certain of its vendors. Under these agreements, if the Company does not meet a minimum purchase level in any given year, the vendor may discontinue certain discounts, allowances and incentives otherwise provided to the Company. In addition, the agreements may be terminated by either the Company or the vendor upon prior written notice.

Additionally, the Company has entered into certain commitments to purchase capital assets with an aggregate purchase price of approximately \$159.5 million at December 31, 1999.

## (d) Operating Leases

The Company leases office space and equipment under non-cancelable operating leases. Lease expense was approximately \$11.8 million, \$27.0 million and \$21.3 million for the years ended December 31, 1997, 1998 and 1999, respectively.

Minimum lease payments due each year on or before December 31 under the Company's operating leases are as follows (in thousands):

2000	\$ 23,324
2001	21,597
2002	18,526
2003	16,111
2004	12,943
Thereafter	57,478
	-----
	\$149,979
	=====

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

## (14) Commitments and Contingencies (continued)

## (e) Transport and Termination Charges

The Company has recorded revenue of approximately \$4.9 million, \$58.3 million and \$124.1 million for the years ended December 31, 1997, 1998 and 1999, respectively, for reciprocal compensation relating to the transport and termination of local traffic to ISPs from customers of ILECs pursuant to various interconnection agreements. During this period, some of the ILECs have not paid all of the bills they have received from the Company and have disputed these charges based on the belief that such calls are not local traffic as defined by the various agreements and not subject to payment of transport and termination charges under state and federal laws and public policies. However, the Company has resolved certain of these disputes with some of the ILECs.

The resolution of these disputes have been, and will continue to be, based on rulings by state public utility commissions and/or by the

Federal Communications Commission (FCC), or through negotiations between the parties. To date, there have been favorable final rulings from 31 state public utility commissions that ISP traffic is subject to the payment of reciprocal compensation under current interconnection agreements. Many of these state commission decisions have been appealed by the ILECs. To date, five federal court decisions, including two federal circuit court of appeals decisions have been issued upholding state commission decisions ordering the payment of reciprocal compensation for ISP traffic. On February 25, 1999, the FCC issued a decision that ISP-bound traffic is largely jurisdictionally interstate traffic. The decision relies on the long-standing federal policy that ISP traffic, although jurisdictionally interstate, is treated as though it is local traffic for pricing purposes. The decision also emphasizes that because there currently are no federal rules governing intercarrier compensation for ISP traffic, the determination as to whether such traffic is subject to reciprocal compensation under the terms of interconnection agreements is properly made by the state commissions and that carriers are bound by their interconnection agreements and state commission decisions regarding the payment of reciprocal compensation for ISP traffic. The FCC has initiated a rulemaking proceeding regarding the adoption of prospective federal rules for intercarrier compensation for ISP traffic. In its notice of

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(14) Commitments and Contingencies (continued)

rulemaking, the FCC expresses its preference that compensation rates for this traffic continue to be set by negotiations between carriers, with disputes resolved by arbitrations conducted by state commissions, pursuant to the Telecommunications Act. Since the issuance of the FCC's decision on February 25, 1999, 19 state utility commissions, have either ruled or reaffirmed that ISP traffic is subject to reciprocal compensation under current interconnection agreements, and two state commissions have declined to apply reciprocal compensation for ISP traffic under current interconnection agreements. Additionally, 11 state commissions have awarded reciprocal compensation for ISP traffic in arbitration proceedings involving new agreements. One state has declined to order reciprocal compensation in an arbitration proceeding, and two states have declined to decide the issue in the arbitration until after the FCC and/or the state commission reaches a decision in pending proceedings on prospective compensation.

On March 24, 2000, the United States Court of Appeals for the District of Columbia Circuit vacated and remanded the FCC's February 25, 1999 decision. The Company does not believe that the Circuit Court's decision will adversely affect the state decisions noted above with respect to reciprocal compensation. The decision does, however, create some uncertainty and there can be no assurance that future FCC or state rulings will be favorable to the Company.

The Company has aggressively participated in a number of regulatory proceedings that address the obligation of the ILECs to pay the Company reciprocal compensation for ISP-bound traffic under the Company's interconnection agreements. These proceedings include complaint proceedings brought by the Company against individual ILECs for failure to pay reciprocal compensation under the terms of a current interconnection agreement; generic state commission

proceedings concerning the obligations of ILECs to pay reciprocal compensation to CLECs, and arbitration proceedings before state commissions addressing the payment of reciprocal compensation on a prospective basis under new interconnection agreements.

In 1999, the state utility commission in Colorado issued a final decision granting a complaint filed by the Company against US West Communications, Inc. (US West) and ruled that the Company is entitled to be paid reciprocal compensation for ISP-bound traffic under the terms of the Company's interconnection agreement in effect at the time of the complaint proceeding. Additionally, in June 1999, the Alabama Public Service Commission ruled that the Company is entitled to be treated the same as other CLECs for which the Alabama commission had previously ordered the payment of reciprocal compensation for ISP traffic by BellSouth Corporation (BellSouth). The ILECs filed for judicial review in federal district court of each of these favorable

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ICG COMMUNICATIONS, INC.  
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Notes to Consolidated Financial Statements, Continued

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(14) Commitments and Contingencies (continued)

commission rulings; the appeals are pending. Also in 1999, the California PUC issued a decision affirming a previously issued decision that held that reciprocal compensation must be paid by Pacific Bell and GTE-California for the termination of ISP traffic by CLECs under existing interconnection agreements. The ILECs also have appealed the California PUC decision, and the appeal is pending.

Subsequent to the issuance of the favorable rulings by the Colorado, Alabama and California state commissions, the Company has received payments from US West, Pacific Bell and GTE-California for amounts owed for reciprocal compensation. Pursuant to an earlier decision by the Ohio commission, Ameritech has been paying ICG reciprocal compensation for ISP traffic under its original interconnection agreement which expired on February 15, 2000. Through December 31, 1999, the Company has received \$65.8 million from Ameritech, \$7.7 million from Pacific Bell and \$11.7 million from GTE-California in reciprocal compensation payments. Additionally, in January and February 2000 the Company received additional payments from Pacific Bell of \$16.8 million, a portion of which represents amounts previously placed in an escrow account by Pacific Bell calculated as being owed to the Company for reciprocal compensation for ISP-bound traffic. Also in January 2000, US West released to the Company \$10.1 million in reciprocal compensation payments that had been in an escrow account.

Additionally, through December 31, 1999, Southwestern Bell Telephone Company (SWBT) has remitted payment to the Company of \$3.9 million for reciprocal compensation owed to the Company for traffic from SWBT customers in Texas to ISPs served by the Company. On December 29, 1999, SWBT initiated commercial arbitration to determine of whether the terms of the Company's current interconnection agreement with SWBT require that the rates that the Company has been billing SWBT for reciprocal compensation be reduced to rates established by the Texas PUC in a 1998 consolidated arbitration with SWBT involving AT&T Corporation, MCI Communications Corporation and other parties. Due to subsequent procedural developments, this issue will be decided by the Texas PUC, rather than in commercial arbitration, after the parties have completed dispute resolution in accordance with the terms of the

interconnection agreement.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(14) Commitments and Contingencies (continued)

On September 16, 1999, the CPUC rendered a decision against MFS/Worldcom, a CLEC (MFS), in an arbitration between Pacific Bell and MFS. The California PUC ruled that MFS should not be permitted to charge reciprocal compensation rates for the tandem switching and common transport rate elements. Although the California PUC's ruling did not involve the Company, the Company made a decision effective for the three months beginning on September 30, 1999 and thereafter to suspend the revenue recognition for the tandem switching and common transport rate elements for services provided in California and in all other states where the Company operates and such rate elements are included in the Company's interconnection agreement with the ILEC. Additionally, the Company recorded a provision of \$45.2 million during the three months September 30, 1999 for accounts receivable related to these elements recognized in periods through June 30, 1999, which the Company believes may be uncollectible. The Company continues to bill Pacific Bell, SWBT and GTE for the tandem switching and common transport rate elements, and will pursue collection of its accounts receivable, despite any such provision. On February 4, 2000, the California PUC initiated a new proceeding to examine, on a prospective basis, compensation for ISP-bound traffic, including the tandem and transport rate elements issue.

The Company has also recorded revenue of approximately \$19.1 million and \$18.4 million for the years ended December 31, 1998 and 1999, respectively, related to other transport and termination charges to the ILECs, pursuant to the Company's interconnection agreements with these ILECs. Included in the Company's trade receivables at December 31, 1998 and 1999 are \$72.8 million and \$76.3 million, respectively, for all receivables related to reciprocal compensation and other transport and termination charges. The receivables balance at December 31, 1998 and 1999 is net of an allowance of \$5.6 million and \$58.2 million, respectively, for disputed amounts and tandem switching and common transport rate elements.

As the Company's interconnection agreements expire or are extended, rates for transport and termination charges are being and will continue to be renegotiated and/or arbitrated. Rates for transport and termination also may be impacted by ongoing state and federal regulatory proceedings addressing intercarrier compensation for Internet traffic on a prospective basis. In addition to the FCC's pending rulemaking proceeding and the District of Columbia Court of Appeals recent remand, of the states in which ICG currently operates, the Ohio, Texas and California commissions currently are conducting proceedings on prospective compensation.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(14) Commitments and Contingencies (continued)

The Company has negotiated and/or arbitrated new or extended interconnection agreements with BellSouth, Ameritech, GTE-California and Pacific Bell. The Company has completed arbitration proceedings with Bell South before the state commissions in Alabama, North Carolina, Georgia, Kentucky, Florida and Tennessee and with Ameritech before the Ohio commission. Final decisions issued by the Alabama, North Carolina, Kentucky and Georgia commissions awarded the Company reciprocal compensation for ISP traffic in new agreements to be executed by the parties, including the tandem and transport rate element. The arbitration decisions of the Florida and Ohio commissions declined to rule on the merits of whether the Company should be paid reciprocal compensation for ISP traffic. The Florida decision ruled that the compensation provisions of the parties' current interconnection agreement would continue to apply, subject to true up, until the completion of the FCC's rulemaking on future compensation. The Ohio commission deferred ruling on the merits until completion of the Ohio commission's generic proceeding on prospective compensation, and ordered that in the interim period until completion of the generic proceeding, bill and keep procedures should be followed, subject to true up once the commission proceeding is concluded. Arbitration proceedings with US West before the Colorado commission and with SWBT before the Texas commission are pending. The Company has negotiated an extension of its current agreement with GTE-California until August 2000 that provides that reciprocal compensation will be paid for ISP traffic, at rates that are lower than the rates that previously applied under the agreement, and the Company has adopted the MFS WorldCom/Pacific Bell interconnection agreement, effective as of March 12, 2000, which agreement also provides for the payment of the end office rate element of reciprocal compensation for ISP traffic, with the tandem and transport rate elements issue subject to further litigation.

Subsequent to completion of the arbitration proceedings with BellSouth, the Company signed a three-year agreement with BellSouth that, among other issues, addresses the payment of reciprocal compensation for Internet traffic. BellSouth agreed to pay past monies due to the Company for reciprocal compensation for the period beginning when ISP traffic was first recorded by the Company from BellSouth and ending December 31, 1999, and the parties also agreed to the payment of reciprocal compensation for Internet and voice traffic for the period from January 1, 2000 through December 31, 2002 at per-minute rates that gradually reduce over the three year period. The agreement is applicable to all nine states in the BellSouth operating territory.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(14) Commitments and Contingencies (continued)

While the Company intends to pursue the collection of all receivables related to transport and termination charges as of December 31, 1999 and believes that future revenue from transport and termination charges recognized under the Company's interconnection agreements will be realized, there can be no assurance that future regulatory and judicial rulings will be favorable to the Company, or that different pricing plans for transport and termination charges between carriers will not be adopted when the Company's interconnection agreements continue to be renegotiated or arbitrated, or as a result of FCC or state commission proceedings on future compensation methods. In fact,

the Company believes that different pricing plans will continue to be considered and adopted, and although the Company expects that revenue from transport and termination charges likely will decrease as a percentage of total revenue from local services in subsequent periods, the Company's local termination services still will be required by the ILECs and must be provided under the Telecommunications Act, and likely will result in increasing volume in minutes due to the growth of the Internet and related services markets. The Company expects to negotiate and/or arbitrate reasonable compensation and collection terms for local termination services, although there is no assurance that such compensation will remain consistent with current levels.

(f) Litigation

On April 4, 1997, certain shareholders of Zycom filed a shareholder derivative suit and class action complaint for unspecified damages, purportedly on behalf of all of the minority shareholders of Zycom, in the District Court of Harris County, Texas (Case No. 97-17777) against the Company, Zycom and certain of their subsidiaries. This complaint alleges that the Company and certain of its subsidiaries breached certain duties owed to the plaintiffs. The plaintiffs were denied class certification by the trial court and the Court of Appeals affirmed the trial court's decision. Trial has been tentatively scheduled for May 2000. The Company is vigorously defending the claims. While it is not possible to predict the outcome of this litigation, management believes these proceedings will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company is a party to certain other litigation which has arisen in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) Business Units

The Company conducts transactions with external customers through the operations of its Telecom Services business unit. Shared administrative services are provided to Telecom Services by Corporate Services. Corporate Services consists of the operating activities of ICG Communications, Inc., ICG Funding, LLC, ICG Canadian Acquisition, Inc., ICG Holdings (Canada) Co., ICG Holdings, Inc., ICG Services, Inc., ICG Corporate Headquarters, L.L.C., ICG 161, L.P. and ICG Mountain View, Inc., which primarily hold securities and real estate properties and provide certain legal, accounting and finance, personnel and other administrative support services to Telecom Services.

Direct and certain indirect costs incurred by Corporate Services on behalf of Telecom Services are allocated to Telecom Services based on the nature of the underlying costs. Transactions between Telecom Services and Corporate Services for services performed in the normal course of business are recorded at amounts which are intended to approximate fair value.

Set forth below are revenue, EBITDA (before non-recurring and non-cash charges), which represents the measure of operating performance used by management to evaluate operating results, depreciation and amortization, interest expense, capital expenditures of continuing operations and total

assets for Telecom Services and Corporate Services. As described in note 3, the operating results of the Company reflect the operations of NETCOM, Network Services, Satellite Services and Zycom as discontinued for all periods presented.

	Years ended December 31,		
	1997	1998	1999
	(in thousands)		
Revenue:			
Telecom Services	\$ 149,358	303,317	479,226
Corporate Services	-	-	-
Total revenue	\$ 149,358	303,317	479,226
EBITDA (before non-recurring and non-cash charges) (a):			
Telecom Services	\$ (92,053)	(21,681)	28,941
Corporate Services	(27,811)	(20,415)	(28,398)
Total EBITDA (before non-recurring and non-cash charges)	\$ (119,864)	(42,096)	543

(Continued)

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

	Years ended December 31,		
	1997	1998	1999
	(in thousands)		
Depreciation and amortization (b):			
Telecom Services	\$ 46,092	87,641	170,607
Corporate Services	3,744	4,286	3,632
Total depreciation and amortization	\$ 49,836	91,927	174,239
Provision for impairment of long-lived assets:			
Telecom Services	\$ 5,169	-	31,815
Corporate Services	-	-	-
Total provision for impairment of long-lived assets	\$ 5,169	-	31,815
Interest expense (b):			
Telecom Services	\$ 11,996	2,692	7,848
Corporate Services	105,525	167,323	204,572
Total interest expense	\$117,521	170,015	212,420
Income tax expense:			
Telecom Services	\$ -	90	25
Corporate Services	-	-	-
Total income tax expense	\$ -	90	25

	=====	=====	=====
Extraordinary gain on sales of operations of NETCOM:			
Telecom Services	\$ -	-	195,511
Corporate Services	-	-	-
	-----	-----	-----
Total interest expense	\$ -	-	195,511
	=====	=====	=====
Capital expenditures of continuing operations (c):			
Telecom Services	\$250,934	355,076	735,220
Corporate Services	10,384	960	13
	-----	-----	-----
Total capital expenditures of continuing operations	\$261,318	356,036	735,233
	=====	=====	=====

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (15) Business Units (continued)

	December 31,	
	1998	1999
	-----	-----
	(in thousands)	
Total assets:		
Telecom Services (d)	\$1,135,937	1,845,171
Corporate Services (d)	371,157	261,085
Eliminations	(20,287)	(85,635)
Net assets of discontinued operations	102,840	-
	-----	-----
Total assets	\$1,589,647	2,020,621
	=====	=====

- (a) EBITDA (before non-recurring and non-cash charges) consists of loss from continuing operations before interest, income taxes, depreciation and amortization, provision for impairment of long-lived assets, restructuring costs and other, net operating costs and expenses, including deferred compensation and net loss (gain) on disposal of long-lived assets, other expense, net and accretion and preferred dividends on preferred securities of subsidiaries, or simply, revenue less operating costs and selling, general and administrative expenses. EBITDA (before non-recurring and non-cash charges) is presented as the Company's measure of operating performance because it is a measure commonly used in the telecommunications industry. EBITDA (before non-recurring and non-cash charges) is presented to enhance an understanding of the Company's operating results and is not intended to represent cash flows from operating activities or results of operations in accordance with generally accepted accounting principles for the periods indicated. EBITDA (before non-recurring and non-cash charges) is not a measurement under generally accepted accounting principles and is not necessarily comparable with similarly titled

measures of other companies.

- (b) Although not included in EBITDA (before non-recurring and non-cash charges), which represents the measure of operating performance used by management to evaluate operating results, the Company has supplementally provided depreciation and amortization and interest expense for Telecom Services and Corporate Services. Interest expense excludes amounts charged for interest on outstanding cash advances and expense allocations between Telecom Services and Corporate Services.
- (c) Capital expenditures include assets acquired under capital leases and exclude payments for construction of the Company's corporate headquarters and corporate headquarters assets acquired through the issuance of long-term debt.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(15) Business Units (continued)

- (d) Total assets of Telecom Services and Corporate Services excludes investments in consolidated subsidiaries which eliminate in consolidation.

(16) Provision for Impairment of Long-Lived Assets

During the year ended December 31, 1999, the Company recorded a provision for impairment of long-lived assets of \$31.8 million, which relates to the impairment of software and other capitalized costs associated with Telecom Services' billing and provisioning system projects under development. The provision for impairment of long-lived assets was based on management's decision to abandon the billing and provisioning systems under development and to select new vendors for each of these systems, which vendors are expected to provide the Company with billing and provisioning solutions with improved functionality and earlier delivery dates at significantly lower costs. The Company's billing and provisioning systems under development were either not operational or were serving minimal customers at the time management determined the carrying value of the underlying assets was not recoverable.

For the year ended December 31, 1997, provision for impairment of long-lived assets includes the impairment of the Company's Corporate Services investments in StarCom International Optics Corporation, Inc. (StarCom) of approximately \$5.2 million. The Company recorded its impairment in the investment in StarCom upon notification by a senior secured creditor of StarCom that it intended to foreclose on its collateral in StarCom, which subsequently caused the bankruptcy of StarCom.

(17) Restructuring Costs

During the year ended December 31, 1998, the Company recorded approximately \$1.5 million of restructuring costs associated with a combined restructuring plan for Telecom Services and Corporate Services, which was designed to support the Company's increased strategic focus on its ISP customer base, as well as to improve the efficiency of operations and general and administrative support functions. Restructuring costs under this plan include severance and other employee benefit costs. The Company has \$0.1 million remaining in accrued liabilities at December 31, 1999 related to this restructuring plan.

Following the Company's acquisition of NikoNet in July 1998, the Company closed a regional facility of a newly acquired subsidiary of NikoNet. Restructuring costs, consisting

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(17) Restructuring Costs

primarily of severance costs, of approximately \$0.3 million were recorded as a result of the facility closure during the year ended December 31, 1998. The Company has \$0.1 million remaining in accrued liabilities at December 31, 1999 related to the facility closure.

(18) Income Taxes

Current income tax expense for the years ended December 31, 1998 and 1999 represents state and federal income tax relating to operations of a subsidiary company during periods when this entity's taxable income could not be offset by the Company's current period losses or net operating loss carryforwards.

Income tax benefit differs from the amounts computed by applying the U.S. federal income tax rate to loss before income taxes primarily because the Company has not recognized the income tax benefit of certain of its net operating loss carryforwards and other deferred tax assets due to the uncertainty of realization.

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1998 and 1999 are as follows:

	December 31,	
	1998	1999
	(in thousands)	
Deferred income tax liabilities:		
Deferred gain on intercompany transactions	-	6,598
Property and equipment, due to excess purchase price of tangible assets and differences in depreciation for book and tax purposes	10,173	15,427
Net deferred income tax liabilities	\$ 10,173	22,025
Deferred income tax assets:		
Net operating loss carryforwards	(247,126)	(265,076)
Accrued interest on high yield debt obligations deductible when paid	(108,895)	(154,601)
Accrued expenses not currently deductible for tax purposes	(3,286)	(18,150)
Allowance for doubtful accounts, not currently deductible for tax purposes	(5,989)	(32,141)
Less valuation allowance	355,123	447,943
Net deferred income tax assets	(10,173)	(22,025)
Net deferred income tax liability	\$ -	-

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (18) Income Taxes (continued)

As of December 31, 1999, the Company has federal net operating loss carryforwards (NOLs) of approximately \$662.7 million, which expire in varying amounts through December 31, 2019. However, due to the provisions of Section 382 and certain other provisions of the Internal Revenue Code and Treasury Regulations (the Code), the utilization of these NOLs may be limited. The Company is also subject to certain state income tax laws, which may also limit the utilization of NOLs.

A valuation allowance has been provided for the Company's deferred tax asset as management is not presently able to determine when the Company will generate future taxable income.

## (19) Employee Benefit Plans

The Company has established salary reduction savings plans under Section 401(k) of the Code which the Company administers for participating employees. All full-time employees are covered under the plans after meeting minimum service and age requirements. Under the plan available to NETCOM employees from January 1, 1997 through July 1, 1998, the Company made a matching contribution of 100% of each NETCOM employee's contribution up to a maximum of 3% of the employee's eligible earnings. Prior to 1997, NETCOM's matching contribution was limited to 50% of each NETCOM employee's contribution up to a maximum of 6% of the employee's eligible earnings. Under the plan available to all ICG employees, including NETCOM employees subsequent to July 1, 1998, the Company makes a matching contribution of ICG Common Stock up to a maximum of 6% of the employee's eligible earnings. Aggregate matching contributions under the Company's employee benefit plans were approximately \$3.6 million, \$4.0 million and \$5.5 million during the years ended December 31, 1997, 1998 and 1999, respectively. The portion of this expense which relates directly to employees of NETCOM is included in loss from discontinued operations for all periods presented.

## (20) Summarized Financial Information of ICG Holdings, Inc.

As discussed in note 10, the 11 5/8% Notes issued by Holdings during 1997 are guaranteed by ICG. The 12 1/2% Notes and the 13 1/2% Notes issued by Holdings during 1996 and 1995, respectively, are guaranteed by ICG and Holdings-Canada.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (20) Summarized Financial Information of ICG Holdings, Inc. (continued)

The separate complete financial statements of Holdings have not been included herein because such disclosure is not considered to be material to the holders of the 11 5/8% Notes, the 12 1/2% Notes and the 13 1/2% Notes. However, summarized consolidated financial information for Holdings and its subsidiaries is as follows:

## Summarized Consolidated Balance Sheet Information

December 31,  
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	1998	1999
	-----	-----
	(in thousands)	
Current assets	\$ 241,667	263,870
Net current assets of discontinued operations	22,392	-
Property and equipment, net	610,671	675,613
Other non-current assets, net	147,283	128,489
Net non-current assets of discontinued operations	48,751	-
Current liabilities	69,204	148,042
Long-term debt, less current portion	1,004,316	1,138,734
Capital lease obligations, less current portion	62,946	57,564
Other long-term liabilities	-	1,233
Due to parent	191,889	256,348
Due to ICG Services	137,762	128,893
Redeemable preferred stock	338,311	390,895
Stockholder's deficit	(733,664)	(1,053,737)

## Summarized Consolidated Statement of Operations Information

	Years ended December 31,		
	1997	1998	1999
	-----	-----	-----
	(in thousands)		
Total revenue	\$ 149,358	305,612	478,850
Total operating costs and expenses	323,149	444,310	635,390
Operating loss	(173,791)	(138,698)	(156,540)
Loss from continuing operations	(313,303)	(260,618)	(376,725)
Net loss	(328,193)	(325,211)	(320,073)

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

## (21) Condensed Financial Information of ICG Holdings (Canada) Co.

Condensed financial information for Holdings-Canada only is as follows:

## Condensed Balance Sheet Information

	December 31,	
	1998	1999
	-----	-----
	(in thousands)	
Current assets	\$ 162	82
Advances to subsidiaries	191,889	266,056
Non-current assets, net	2,414	-
Current liabilities	73	73
Long-term debt, less current portion	65	-
Due to parent	182,101	256,317
Share of losses of subsidiary	733,664	1,053,737
Shareholders' deficit	(721,438)	(1,043,989)

## Condensed Statement of Operations Information

	Years ended December 31,		
	1997	1998	1999
	(in thousands)		
Total revenue	\$ -	-	-
Total operating costs and expenses	195	192	2,478
Operating loss	(195)	(192)	(2,478)
Losses of subsidiaries	(328,193)	(325,211)	(320,073)
Net loss attributable to common shareholders	(328,388)	(325,403)	(322,551)

## (22) Condensed Financial Information of ICG Communications, Inc. (Parent company)

The primary assets of ICG are its investments in ICG Services, ICG Funding and Holdings-Canada, including advances to those subsidiaries. Certain corporate expenses of the parent company are included in ICG's statement of operations and were approximately \$1.2 million, \$2.2 million and \$1.4 million for the years ended December 31, 1997, 1998 and 1999, respectively. ICG has no operations other than those of ICG Services, ICG

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (22) Condensed Financial Information of ICG Communications, Inc. (Parent company) (continued)

Funding, ICG Acquisition, Inc. and their subsidiaries.

## (23) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents and short-term investments available for sale:

The carrying amount approximates fair value because of the short maturities of such instruments.

Long-term investments:

The fair values of long-term investments for which it is practicable are estimated based on the quoted market prices for those or similar investments. The long-term investments for which it is not practicable to estimate the fair value relate to cost investments in unrelated entities for which there is no market.

Long-term debt:

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues for the Senior Discount Notes which are publicly traded. The fair value of both the Senior Facility and the mortgage loan are estimated to be the carrying amount of the debt as the debt instruments are not publicly traded and have stated fixed or LIBOR plus a fixed percent interest rates.

#### Redeemable preferred stock:

The fair value of the preferred stock, which was issued in a private placement, is included in the following table at carrying value as such stock is not traded in the open market and a market price is not readily available.

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#### ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements, Continued

#### (23) Fair Value of Financial Instruments (continued)

The estimated fair values of the Company's financial instruments are as follows:

	December 31,			
	1998		1999	
	(in thousands)			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents and short-term investments available for sale	\$ 262,307	\$ 262,307	\$ 125,507	\$ 125,507
Restricted Cash	16,912	16,912	12,537	12,537
Long-term investments:				
Practicable	-	-	27,696	31,019
Not practicable	-	-	1,243	-
Long-term debt:				
Senior facility	-	-	(79,625)	(79,625)
Senior discount notes	(1,597,895)	(1,471,633)	(1,792,996)	(1,504,089)
Mortgage loan payable	-	-	(33,077)	(33,077)
Redeemable preferred stock	(466,352)	(466,352)	(519,323)	(519,323)

#### (24) Events Subsequent to Date of Independent Auditors' Report (Unaudited)

In February 2000, the Company announced that it had arranged to sell approximately \$750.0 (before estimated expenses and fees of \$45.0 million) million of convertible preferred stock in the Company to three investors: affiliates of Liberty Media Corporation (Liberty), Hicks, Muse, Tate & Furst Incorporated (Hicks Muse) and Gleacher Capital Partners (Gleacher). Under the terms of the transaction, Liberty will invest \$500.0 million, Hicks Muse will invest \$230.0 million and Gleacher will invest \$20.0 million in exchange for a total of 750,000 shares of Series A convertible preferred stock at \$1,000 per share. The preferred stock will be convertible into the Company's common stock at a conversion rate of \$28.00 per common share. The Company will also issue 10 million common stock warrants which will be exercisable at \$34.00 per share. The proceeds from this new equity investment will be used principally by the Company to fund network expansion. It is expected that this equity financing will close during the second quarter of 2000.

On February 22, 2000, the Company purchased 61,845 shares of restricted Series D Preferred Stock (Cyras Preferred Stock) of Cyras Systems, Inc., for approximately \$1.0 million. Cyras is a manufacturer of telecommunications equipment (Cyras). Dividends on the Cyras Preferred Stock are 8% per annum, non-cumulative and payable in cash or any Cyras assets legally available and as declared by the board of directors of Cyras. The Cyras Preferred Stock is automatically convertible into shares of common stock of Cyras, upon the initial public offering of the common stock of Cyras or upon the election to convert by more than 66% of all of the preferred stockholders of Cyras.

During the first quarter of 2000, the Company signed letters of intent with its two biggest vendors, Lucent Technologies, Inc. and Cisco Systems, Inc. for financing of future capital expenditures. The Company believes that these proposed financing agreements will better enable the Company to fund its scheduled network expansion through the purchase of

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(24) Events Subsequent to Date of Independent Auditors' Report (Unaudited)  
(continued)

Lucent and Cisco equipment. It is anticipated that the Lucent credit agreement will provide the Company with up to \$250.0 million of long-term debt financing which can be drawn down during the year following the closing to purchase network equipment. Under the terms of the Lucent letter of intent, the Company will commit to purchase a minimum of \$175.0 million of equipment with principal amounts outstanding required to be repaid in quarterly installments over a five-year period beginning 2001. The proposed Cisco credit facility will provide the Company with up to \$180.0 million of capital lease financing with a three-year repayment term. During the first quarter of 2000, \$50.0 million of the capital lease financing with Cisco was finalized, however, no amounts have been drawn down under this facility.

In February 2000, the Company announced that it had arranged to sell approximately \$750.0 (before estimated expenses and fees of \$45.0 million) million of convertible preferred stock in the Company to three investors: affiliates of Liberty Media Corporation (Liberty), Hicks, Muse, Tate & Furst Incorporated (Hicks Muse) and Gleacher Capital Partners (Gleacher). Under the terms of the transaction, Liberty will invest \$500.0 million, Hicks Muse will invest \$230.0 million and Gleacher will invest \$20.0 million in exchange for a total of 750,000 shares of Series A convertible preferred stock at \$1,000 per share. The preferred stock will be convertible into the Company's common stock at a conversion rate of \$28.00 per common share. The Company will also issue 10 million common stock warrants which will be exercisable at \$34.00 per share. The proceeds from this new equity investment will be used principally by the Company to fund network expansion. It is expected that this equity financing will close during the second quarter of 2000.

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ICG COMMUNICATIONS, INC.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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(24) Events Subsequent to Date of Independent Auditors' Report (Unaudited)  
(continued)

Separately, pursuant to an agreement dated February 28, 2000, a subsidiary of the Company will purchase 1,000,000 shares of common stock of Teligent, Inc., a fixed wireless broadband communications provider (Teligent), from a subsidiary of Teligent in exchange for 2,996,076 shares of ICG Common Stock. The Company and Teligent believe that they have complementary systems and infrastructure that can be leveraged to expand each company's network and service capabilities.

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## FINANCIAL STATEMENT SCHEDULE

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Independent Auditors' Report  
-----

The Board of Directors and Stockholders  
ICG Communications, Inc.:

Under the date of February 16, 2000, we reported on the consolidated balance sheets of ICG Communications, Inc. and subsidiaries as of December 31, 1998 and 1999 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 1999 as contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1999. In connection with our audits of the aforementioned consolidated financial statements, we have also audited the related financial statement Schedule II: Valuation and Qualifying Accounts. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. We did not audit the consolidated financial statements and related financial statement schedule of NETCOM On-Line Communication Services, Inc. (NETCOM), a discontinued wholly owned subsidiary of the Company, as of the year ended December 31, 1997, whose loss from operations constitutes 83.8 percent in 1997 of the consolidated loss from discontinued operations. Those consolidated financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in the financial statement schedule for NETCOM, is based solely on the report of the other auditors.

In our opinion, based on our audits and the report of the other auditors, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Denver, Colorado  
February 16, 2000

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ICG COMMUNICATIONS, INC.

## AND SUBSIDIARIES

## Schedule II

## Valuation and Qualifying Accounts

Description	Balance at beginning of period	Additions		Deductions	Balance at end of period
		Charged to costs and expenses	Charged to other accounts		
			(in thousands)		
Allowance for uncollectible trade receivables:					
Year ended December 31, 1997	\$ 809	3,573	-	(589)	3,793
Year ended December 31, 1998	\$ 3,793	11,238	-	(680)	14,351
Year ended December 31, 1999	\$14,351	60,019	4,312	-	78,682
Allowance for uncollectible note receivable:					
Year ended December 31, 1997	\$ 7,275	-	-	(3,975)	3,300
Year ended December 31, 1998	\$ 3,300	-	-	(2,000)	1,300
Year ended December 31, 1999	\$ 1,300	-	-	(1,300)	-
Allowance for impairment of long-lived assets:					
Year ended December 31, 1997	\$ 2,000	5,170	-	(2,000)	5,170
Year ended December 31, 1998	\$ 5,170	-	-	-	5,170
Year ended December 31, 1999	\$ 5,170	31,815	-	(5,170)	31,815

See accompanying independent auditors' report.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ICG Communications, Inc.

By: /s/ J. Shelby Bryan

J. Shelby Bryan  
Chairman of the Board of Directors  
and Chief Executive Officer

Date: March 29, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature  
Date

Title

**Excerpts from ICG Communications, Inc.'s  
First Quarter 2000 SEC Form 10-Q  
Report**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

(Commission File Number 1-11965)

ICG COMMUNICATIONS, INC.

(Commission File Number 1-11052)

ICG HOLDINGS (CANADA) CO.

(Commission File Number 33-96540)

ICG HOLDINGS, INC.

(Exact names of registrants as specified in their charters)

Delaware	84-1342022
Nova Scotia	Not Applicable
Colorado	84-1158866
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
-----	
161 Inverness Drive West	Not applicable
Englewood, Colorado 80112	
161 Inverness Drive West	c/o ICG Communications, Inc.
Englewood, Colorado 80112	161 Inverness Drive West
	Englewood, Colorado 80112
161 Inverness Drive West	Not applicable
Englewood, Colorado 80112	
(Address of principal executive offices)	(Address of U.S. agent for service)
-----	
Registrants' telephone numbers, including area codes: (888) 424-1144 or (303) 414-5000	

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

The number of registrants' outstanding common shares as of May 10, 2000 were 48,642,985, 31,931,588 and 1,918, respectively. ICG Canadian Acquisition, Inc., a wholly owned subsidiary of ICG Communications, Inc., owns all of the issued and outstanding common shares of ICG Holdings (Canada) Co. ICG Holdings (Canada) Co. owns all of the issued and outstanding shares of ICG Holdings, Inc.

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## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets  
December 31, 1999 and March 31, 2000 (unaudited)

	December 31, 1999	March 31, 2000
	-----	-----
Assets		
	(in thousands)	
Current assets:		
Cash and cash equivalents	\$ 103,288	40,699
Short-term investments available for sale	22,219	31,115
Receivables:		
Trade, net of allowance of \$78,682 and \$57,160 at December 31, 1999 and March 31, 2000, respectively (note 6)	167,273	152,022
Other	1,458	4,489
	-----	-----
	168,731	156,511
Prepaid expenses, deposits and inventory	11,388	10,670
	-----	-----
Total current assets	305,626	238,995
	-----	-----
Property and equipment	1,805,378	2,017,958
Less accumulated depreciation	(279,698)	(336,090)
	-----	-----
Net property and equipment	1,525,680	1,681,868

Restricted cash	12,537	11,457
Investments (note 4)	28,939	2,402
Other assets, net of accumulated amortization:		
Goodwill	95,187	87,281
Deferred financing costs	35,884	35,275
Other, net	16,768	18,059
	147,839	140,615
 Total assets (note 7)	 \$2,020,621	 2,075,337

(Continued)

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## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets (unaudited), Continued

	December 31, 1999	March 31, 2000
Liabilities and Stockholders' Deficit		
		(in thousands)
Current liabilities:		
Accounts payable	\$ 112,291	56,544
Payable pursuant to IRU agreements	135,322	157,618
Accrued liabilities	85,709	91,284
Deferred revenue (note 6)	25,175	45,098
Deferred gain on sale (note 3)	5,475	-
Current portion of capital lease obligations	8,090	11,256
Current portion of long-term debt (note 5)	796	796
Current liabilities of discontinued operations (note 3)	529	436
Total current liabilities	373,387	363,032
Capital lease obligations, less current portion	63,348	72,884
Long-term debt, net of discount, less current portion (note 5)	1,905,901	2,052,761
Other long-term liabilities	2,526	2,958
Total liabilities	2,345,162	2,491,635
Redeemable preferred stock of subsidiary (\$397.9 and \$412.0 million liquidation value at December 31, 1999 and March 31, 2000, respectively) (note 5)	390,895	405,203
Company-obligated mandatorily redeemable preferred securities of subsidiary		

limited liability company which holds  
solely Company preferred stock  
(\$133.4 million liquidation value at  
March 31, 2000)

128,428                      128,524

Stockholders' deficit:

Common stock, \$.01 par value,  
100,000,000 shares authorized;  
47,761,337 and 48,595,120 shares  
issued and outstanding at December  
31, 1999 and March 31, 2000,  
respectively

478                      486  
599,282                      612,418  
(1,443,624)                      (1,565,258)

Additional paid-in capital

Accumulated deficit

Accumulated other comprehensive income

-                      2,329

Total stockholders' deficit

(843,864)                      (950,025)

Commitments and contingencies (note 6)

Total liabilities and stockholders'  
deficit

\$2,020,621                      2,075,337

See accompanying notes to consolidated financial statements.

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ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations  
Three Months Ended March 31, 1999 and 2000 (unaudited)

	Three months ended March 31,	
	1999	2000
	(in thousands, except per share data)	
Revenue (note 7)	\$ 104,331	157,224
Operating costs and expenses:		
Operating costs	53,649	82,902
Selling, general and administrative expenses	42,808	55,089
Depreciation and amortization (note 7)	36,375	64,599
Other	(933)	432
Total operating costs and expenses	131,899	203,022
Operating loss (note 7)	(27,568)	(45,798)
Other income (expense):		
Interest expense (note 7)	(47,438)	(62,634)
Interest income	4,104	3,277
Other (expense) income, net, including unrealized gain on		

marketable trading securities in 1999 and realized gain on sale of available for sale securities in 2000	(500)	158
	(43,834)	(59,199)
Loss from continuing operations before preferred dividends and extraordinary gain	(71,402)	(104,997)
Accretion and preferred dividends on preferred securities of subsidiaries	(14,804)	(16,637)
Loss from continuing operations before extraordinary gain	(86,206)	(121,634)
Loss from discontinued operations	(111)	-
Loss before extraordinary gain	(86,317)	(121,634)
Extraordinary gain on sales of operations of NETCOM, net of income taxes of \$6.4 million (note 3)	193,029	-
Net (loss) income	\$ 106,712	(121,634)
Other comprehensive income:		
Unrealized gain on available for sale securities	\$ -	2,329
Comprehensive (loss) income	\$ 106,712	(119,305)
Net (loss) earnings per share - basic and diluted:		
Loss from continuing operations	\$ (1.85)	(2.52)
Loss from discontinued operations	-	-
Extraordinary gain on sales of operations of NETCOM	4.14	-
Net (loss) earnings per share - basic and diluted	\$ 2.29	(2.52)
Weighted average number of shares outstanding - basic and diluted	46,538	48,189

See accompanying notes to consolidated financial statements.

## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Deficit  
Three Months Ended March 31, 1999 (unaudited)

Common stock	Additional	Accumulated other	Total
--------------	------------	----------------------	-------

	Shares	Amount	paid-in capital	Accumulated deficit	comprehensive income	stockholders' deficit
			(in thousands)			
Balances at January 1, 2000	47,761	\$ 478	599,282	(1,443,624)	-	(843,864)
Shares issued for cash in connection with the exercise of options and warrants	709	7	11,138	-	-	11,145
Shares issued for cash in connection with the employee stock purchase plan	54	-	757	-	-	757
Shares issued as contribution to 401(k) plan	71	1	1,241	-	-	1,242
Unrealized holding gain on available for sale securities, arising during the period, net of tax	-	-	-	-	2,810	2,810
Reclassification adjustment, realized gain on available for sale securities	-	-	-	-	(481)	(481)
Net loss	-	-	-	(121,634)	-	(121,634)
Balances at March 31, 2000	48,595	486	612,418	(1,565,258)	2,329	(950,025)

See accompanying notes to consolidated financial statements.

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# ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows Three Months Ended March 31, 1999 and 2000 (unaudited)

	Three months ended March 31,	
	1999	2000
	(in thousands)	
Cash flows from operating activities:		
Net (loss) income	\$ 106,712	(121,634)
Loss from discontinued operations	111	-
Extraordinary (gain) loss on sales of operations	(193,029)	-
Adjustments to reconcile net (loss) income to net cash used by operating activities:		
Recognition of deferred gain	(3,805)	(6,239)
Accretion and preferred dividends on preferred securities of subsidiaries	14,804	16,637
Depreciation and amortization	36,375	64,599
Provision for uncollectible accounts	3,604	3,830
Deferred compensation	-	432
Interest expense deferred and included in long-term debt	46,283	52,064
Interest expense deferred and included in capital lease obligations	1,406	1,351
Amortization of deferred financing costs included in interest expense	1,082	501
Interest expense capitalized on assets under construction	(3,168)	(1,477)
Contribution to 401(k) plan through issuance of common stock	2,077	1,242

Net loss (gain) on disposal of long-lived assets	(933)	-
Unrealized gain on marketable trading securities in 1999 and realized gain on sale of available for sale securities in 2000	(439)	(481)
Other noncash expenses	-	301
Change in operating assets and liabilities, excluding the effects of dispositions and noncash transactions:		
Receivables	(48,225)	8,390
Prepaid expenses, deposits and inventory	(2,537)	1,705
Accounts payable and accrued liabilities	(9,892)	(50,460)
Deferred revenue	1,669	22,005
Net cash used by operating activities	(47,905)	(7,234)
Cash flows from investing activities:		
Acquisition of property, equipment and other assets	(99,151)	(141,299)
Payments for construction of corporate headquarters	-	(1,699)
Proceeds from sale of available for sale securities	-	2,201
Proceeds from sales of operations of NETCOM, net of cash included in sale	252,881	-
Proceeds from disposition of property, equipment and other assets	4,300	-
Proceeds from sales of short-term investments available for sale	5,340	19,399
Decrease in restricted cash	1,385	1,080
Purchase of investments	(27,466)	(1,150)
Purchase of minority interest in subsidiary	(4,189)	-
Net cash (used) provided by investing activities	133,100	(121,468)
		(Continued)

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## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows (unaudited), Continued

	Three months ended March 31,	
	1999	2000
	(in thousands)	
Cash flows from financing activities:		
Proceeds from issuance of common stock:		
Exercise of options and warrants	\$ 2,769	11,145
Employee stock purchase plan	1,388	757
Proceeds from issuance of long-term debt	-	95,000
Principal payments on capital lease obligations	(1,793)	(3,061)
Payments on IRU agreement	-	(35,198)
Principal payments on long-term debt	(589)	(205)
Payments of preferred dividends	(2,231)	(2,231)

Net cash (used) provided by financing activities	(456)	66,207
	-----	-----
Net increase (decrease) in cash and cash equivalents	84,739	(62,495)
Net cash used by discontinued operations	(3,356)	(94)
Cash and cash equivalents, beginning of period	210,307	103,288
	-----	-----
Cash and cash equivalents, end of period	\$ 291,690	40,699
	=====	=====
Supplemental disclosure of cash flows information of continuing operations:		
Cash paid for interest	\$ 1,835	7,132
	=====	=====
Cash paid for income taxes	\$ 409	220
	=====	=====
Supplemental schedule of noncash investing and financing activities of continuing operations:		
Acquisition of corporate headquarters assets through the issuance of long-term debt and conversion of security deposit (note 5)	\$ 33,719	-
	=====	=====
Assets acquired pursuant to IRU agreement	\$ -	57,494
Assets acquired under capital leases	3,760	14,415
	-----	-----
Total (note 6)	\$ 3,760	71,909
	=====	=====

See accompanying notes to consolidated financial statements.

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#### ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 1999 and March 31, 2000 (unaudited)

##### (1) Organization and Nature of Business

ICG Communications, Inc., a Delaware corporation ("ICG" or "the Company"), was incorporated on April 11, 1996 and is the publicly-traded U.S. parent company of ICG Funding, LLC, a special purpose Delaware limited liability company and wholly owned subsidiary of ICG ("ICG Funding"), ICG Holdings (Canada) Co., a Nova Scotia unlimited liability company ("Holdings-Canada"), ICG Holdings, Inc., a Colorado corporation ("Holdings"), and ICG Services, Inc., a Delaware corporation ("ICG Services"), and their subsidiaries. ICG and its subsidiaries are collectively referred to as the "Company."

The Company's principal business activity is telecommunications services ("Telecom Services") which consists primarily of the Company's operations as a facilities-based communications provider including the provision of services such as network facilities and data management to Internet service provider ("ISP") customers and voice and data communications services to business customers such as local, long distance and enhanced telephony. The Company also provides interexchange services such as special access and

switched access services to long distance carriers and other customers. The Company began marketing competitive local dial-tone services to business customers in early 1997, subsequent to the passage of the Telecommunications Act of 1996, which permitted competitive interstate and intrastate telephone services and began offering network services to ISPs and other telecommunications providers in February 1999.

During 1999, the Company sold the retail customer ISP business of NETCOM, retaining the national Tier 1 data network assets. Additionally, during 1999, the Company also sold ICG Fiber Optic Technologies, Inc. and Fiber Optic Technologies of the Northwest, Inc., which provided information technology services and selected networking products, as well as ICG Satellite Services, Inc. and Maritime Telecommunications Network, Inc., which provided satellite voice, data and video services to major cruise ship lines, the U.S. Navy, the offshore oil and gas industry and integrated communications providers. (See note 3, "Discontinued Operations".)

(2) Significant Accounting Policies

(a) Basis of Presentation

The Company's financial statements should be read in conjunction with ICG's Annual Report on Form 10-K for the year ended December 31, 1999, as certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission. The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows as of and for the interim periods presented. Such adjustments are of a normal recurring nature. Operating results for the three months ended March 31, 2000 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2000.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Recent Accounting Pronouncements

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation - and interpretation of APB Opinion No. 25 ("FIN 44"). This opinion provides guidance on the accounting for certain stock option transactions and subsequent amendments to stock option transactions. FIN 44 is effective July 1, 2000, but certain conclusions cover specific events that occur after either December 15,

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Significant Accounting Policies (continued)

1998 or January 12, 2000. To the extent that FIN 44 covers events occurring during the period from December 15, 1998 and January 12, 2000, but before July 1, 2000, the effects of applying this Interpretation are to be recognized on a prospective basis. The Company has not yet assessed the impact, if any, that FIN 44 might have on its financial position or results of operations.

In December 1999, the SEC released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. Subsequently, the SEC released SAB 101A, which delayed the implementations date of SAB 101 for registrants with fiscal years beginning between December 16, 1999 and March 15, 2000. The Company has not yet assessed the impact, if any, that SAB 101 might have on its financial position or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. As amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of Effective Date of FASB Statement No. 133", SFAS 133 is effective for all fiscal years beginning after June 15, 2000. The Company will adopt SFAS 133 effective at the beginning of its fiscal year end 2001. The Company does not believe that the adoption of SFAS 133 will have a material effect on the Company's financial position or results of operations.

(c) Reclassifications

Certain 1999 amounts have been reclassified to conform with the 2000 presentation.

(3) Discontinued Operations

Loss from discontinued operations consists of the following:

	Three months ended March 31,	
	1999	2000
	(in thousands)	
Network Services (a)	\$ (412)	-
Satellite Services (b)	301	-
Loss from discontinued operations	\$ (111)	-

(a) Network Services

On July 15, 1999, the Company's board of directors adopted a formal plan to dispose of the Company's investments in its wholly-owned subsidiaries, ICG Fiber Optic Technologies, Inc. and Fiber Optic Technologies of the Northwest, Inc. (collectively, "Network Services"). Accordingly, the Company's consolidated financial statements reflect the operations of Network Services as discontinued for all periods presented. On October 22, 1999, the Company completed the sale of all of the capital stock of Network Services to ACS Communications, Inc. for total proceeds of \$23.9 million in cash.

## Notes to Consolidated Financial Statements, Continued

## (3) Discontinued Operations (continued)

## (b) Satellite Services

On July 15, 1999, the Company's board of directors adopted a formal plan to dispose of the Company's investments in ICG Satellite Services, Inc. and Maritime Telecommunications Network, Inc. (collectively, "Satellite Services"). Accordingly, the Company's consolidated financial statements reflect the operations of Satellite Services as discontinued for all periods presented. On November 30, 1999, the Company completed the sale of all of the capital stock of Satellite Services to ATC Teleports, Inc. for total proceeds of \$98.1 million in cash.

## (c) NETCOM

On February 17, 1999, the Company sold certain of the operating assets and liabilities of NETCOM to MindSpring Enterprises, Inc., an ISP located in Atlanta, Georgia and predecessor to EarthLink, Inc. ("MindSpring"). Total proceeds from the sale were \$245.0 million, consisting of \$215.0 million in cash and 376,116 shares of common stock of MindSpring, valued at approximately \$79.76 per share at the time of the transaction. Assets and liabilities sold to MindSpring included those directly related to the domestic operations of NETCOM's Internet dial-up, dedicated access and Web site hosting services. In conjunction with the sale to MindSpring, the Company entered into an agreement to lease to MindSpring for a one-year period the capacity of certain network operating assets formerly owned by NETCOM and retained by the Company (the "MindSpring Capacity Agreement"). The MindSpring Capacity Agreement was amended during the first quarter of 2000 to extend the terms of the agreement through May 2000. MindSpring utilized the Company's network capacity under this agreement to provide Internet access to the dial-up services customers formerly owned by NETCOM. In addition, the Company received for a one-year period 50% of the gross revenue earned by MindSpring from the dedicated access customers formerly owned by NETCOM. The carrying value of the assets retained by the Company was approximately \$21.7 million, including approximately \$17.5 million of network equipment, on February 17, 1999. The Company also retained approximately \$11.3 million of accrued liabilities and capital lease obligations.

On March 16, 1999, the Company sold all of the capital stock of NETCOM's international operations for total proceeds of approximately \$41.1 million. MetroNET Communications Corp., a Canadian entity, and Providence Equity Partners, located in Providence, Rhode Island ("Providence"), together purchased the 80% interest in NETCOM Canada Inc. owned by NETCOM for approximately \$28.9 million in cash. Additionally, Providence purchased all of the capital stock of NETCOM Internet Access Services Limited, NETCOM's operations in the United Kingdom, for approximately \$12.2 million in cash.

During the three months ended March 31, 1999, the Company recorded a combined gain on the sales of the operations of NETCOM of approximately \$193.0 million, net of income taxes of approximately \$6.4 million. The gain and related income taxes were adjusted during the nine months ended December 31, 1999 to record actual results. Offsetting the gain on the sales during the three months ended March 31, 1999 is approximately \$16.6 million of net losses from operations of NETCOM from November 3, 1998 (the date on which the Company's board of directors adopted the formal plan to dispose of the operations of NETCOM) through the dates of the sales. Additionally, since the Company expected to generate operating costs in excess of revenue under the MindSpring Capacity Agreement and the terms of the sale agreement were dependent upon and negotiated in conjunction with the terms of the

network capacity agreement, the Company deferred approximately \$35.5 million of the proceeds from the sale agreement to be applied on a periodic basis to the network capacity agreement. The deferred proceeds were recognized in the Company's statement of operations as the Company incurred cash operating losses under the network capacity agreement. Accordingly, the Company did not recognize any revenue, operating costs

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## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (3) Discontinued Operations (continued)

or selling, general and administrative expenses from services provided to MindSpring for the term of the agreement. Any incremental revenue or costs generated by other customers, or by other services provided to MindSpring, was recognized in the Company's consolidated statement of operations as incurred. During the three months ended March 31, 2000, \$6.2 million in losses related to the MindSpring customers were offset against the deferred amount. As of March 31, 2000, all amounts deferred in relation to the MindSpring Capacity Agreement have been offset by losses incurred under the agreement. The Company, through NetAhead, is currently utilizing the retained network operating assets to provide wholesale capacity and other enhanced network services on an ongoing basis to MindSpring under an extension of the original network capacity agreement as well as to other ISPs and telecommunications providers. Operating results from such services have been included in the Company's statement of operations as incurred. Since the operations sold were acquired by ICG in a transaction accounted for as a pooling of interests, the gain on the sales of the operations of NETCOM is classified as an extraordinary item in the Company's consolidated statement of operations.

## (4) Investments

On February 22, 2000, the Company purchased 61,845 shares of restricted Series D Preferred Stock ("Cyras Preferred Stock") of Cyras Systems, Inc., ("Cyras"), for approximately \$1.0 million. Cyras is a manufacturer of telecommunications equipment. Dividends on the Cyras Preferred Stock are 8% per annum, noncumulative and payable in cash or any Cyras assets legally available and as declared by the board of directors of Cyras. The Cyras Preferred Stock is automatically convertible into shares of common stock of Cyras upon the initial public offering of the common stock of Cyras or upon the election to convert by more than 66% of all of the preferred stockholders of Cyras.

On March 30, 1999, the Company purchased, for approximately \$10.0 million in cash, 454,545 shares of restricted Series D-1 Preferred Stock (the "NorthPoint Preferred Stock") of NorthPoint Communications Holdings, Inc., a Delaware corporation and competitive local exchange carrier ("CLEC") based in San Francisco, California ("NorthPoint") which was converted into 555,555 shares of Class B Common Stock of NorthPoint (the "NorthPoint Class B Shares") on May 5, 1999. The NorthPoint Class B Shares were then converted on March 30, 2000 on a one-for-one basis into a voting class of common stock of NorthPoint. The Company accounted for its investment in NorthPoint under the cost method of accounting until the NorthPoint Class B Shares were converted into voting and tradable common stock of NorthPoint, after which the investment was classified as an available for sale security. During the three months ended March 31, 2000, the Company sold 95,555 of the NorthPoint shares for proceeds of approximately \$2.2 million.

A gain of approximately \$0.5 million was recognized on the sale. All shares remaining at March 31, 2000 are classified as available for sale with unrealized gains on the investment of \$2.3 million recorded as a component of stockholders' equity.

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## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (5) Long-term Debt and Redeemable Preferred Stock of Subsidiary

Long-term debt is summarized as follows:

	December 31, 1999	March 31, 2000
	-----	
	(in thousands)	
Senior Facility due on scheduled maturity dates, secured by substantially all of the assets of ICG Equipment and NetAhead with weighted average interest rates ranging from 9.26% to 9.65% for the three months ended March 31, 2000	\$ 79,625	174,438
9 7/8% Senior discount notes of ICG Services, net of discount	293,925	301,064
10% Senior discount notes of ICG Services, net of discount	361,290	370,213
11 5/8% Senior discount notes of Holdings, net of discount	137,185	141,079
12 1/2% Senior discount notes of Holdings, net of discount	468,344	482,682
13 1/2% Senior discount notes of Holdings, net of discount	532,252	550,022
Mortgage payable with interest at 8 1/2%, due monthly into 2009, secured by building	999	982
Mortgage loan payable with adjustable rate of interest (15.21% at March 31, 2000), due monthly into 2013, secured by corporate headquarters	33,077	33,077
	-----	
	1,906,697	2,053,557
	(796)	(796)
	-----	
	\$ 1,905,901	2,052,761
	=====	

## (a) Senior Facility

During the quarter ended March 31, 2000, the Company borrowed the remaining \$95.0 million available under the \$100.0 million term loan. The \$100.0 million outstanding under the \$100.0 million term loan bears interest at a weighted average interest rate of 9.26% for the three months ended March 31, 2000.

Redeemable preferred stock of subsidiary is summarized as follows:

	December 31, 1999	March 31, 2000
	-----	-----
	(in thousands)	
14% Exchangeable preferred stock of Holdings, mandatorily redeemable in 2008	\$ 144,144	149,384
14 1/4% Exchangeable preferred stock of Holdings, mandatorily redeemable in 2007	246,751	255,819
	-----	-----
	\$ 390,895	405,203
	=====	=====

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#### ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements, Continued

#### (6) Commitments and Contingencies

##### (a) Network Capacity and Construction

In January 2000, Qwest Communications Corporation ("Qwest") and the Company signed an agreement, whereby the Company will provide, for \$126.5 million over the initial 6-year term of the agreement, an indefeasible right of use ("IRU") for designated portions of the Company's local fiber optic network. The Company will recognize revenue ratably over the term of the agreement, as the network capacity is available for use. Payments will be received in installments through June 18, 2000. The agreement was amended in March 2000 to include additional capacity for proceeds of \$53.8 million to be received in installments through September 18, 2000. Qwest may, at its option, extend the initial term of the agreement for an additional four-year period and an additional 10-year period for incremental payment at the time of the option exercises. In the event that the Company fails to deliver any of the network capacity by March 31, 2001, Qwest is entitled to cancel any undelivered network capacity segments and receive immediate refund of any amounts already paid to the Company for such segments.

In June 1999, the Company signed a minimum 10-year agreement to lease certain portions of its fiber optic network to Qwest for \$32.0 million, which was received in full by the Company in June 1999. The Company has accounted for the agreement as a sales-type lease and is recognizing revenue and operating costs in its consolidated financial statements on a percentage of completion basis as the network build-out is completed and is available for use. On March 23, 2000, the final network facilities to be included under the agreement were identified and made available for use allowing the Company to recognize all remaining revenue under the agreement except amounts deferred related to maintenance services. For the three months ended March 31, 2000, the Company included \$11.5 million and \$1.1 million in revenue and operating costs, respectively, in its consolidated financial statements related to the agreement, including revenue attributed to maintenance services, which is recognized ratably over

the term of the agreement. Approximately \$2.4 million of the total proceeds received related to maintenance services remain in deferred revenue in the Company's consolidated balance sheet at March 31, 2000.

In March 1996, the Company and Southern California Edison Company ("SCE") entered into a 25-year agreement under which the Company will license 1,258 miles of fiber optic cable in Southern California, and can install up to 500 additional miles of fiber optic cable. This network, which will be maintained and operated primarily by the Company, stretches from Los Angeles to southern Orange County. Under the terms of this agreement, SCE is entitled to receive an annual fee for ten years, certain fixed quarterly payments, a quarterly payment equal to a percentage of certain network revenue, and certain other installation and fiber connection fees. The aggregate fixed payments remaining under the agreement totaled approximately \$124.4 million at March 31, 2000. The agreement has been accounted for as a capital lease in the accompanying consolidated balance sheets.

(b) Telecommunications and Line Purchase Commitments

In November 1999, the Company entered into a one-year agreement with Covad Communications Company, ("Covad"), to purchase digital subscriber line ("DSL") services from Covad. Under the agreement, the Company is required to purchase a minimum amount of DSL services before designated intervals over the one-year period.

Effective September 1998, the Company entered into two service agreements with three-year terms with WorldCom Network Services, Inc. ("WorldCom"). Under the Telecom Services Agreement, WorldCom provides, at designated rates, switched telecommunications services and other related services to the Company, including termination services, toll-free origination, switched access, dedicated access and travel card services. Under the Carrier Digital Services Agreement, WorldCom provides the Company, at designated rates, with the installation

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ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(6) Commitments and Contingencies (continued)

and operation of dedicated digital telecommunications interexchange services, local access and other related services, which the Company believes expedites service availability to its customers. Both agreements require that the Company provide WorldCom with certain minimum monthly revenue, which if not met, would require payment by the Company for the difference between the minimum commitment and the actual monthly revenue. Additionally, both agreements limit the Company's ability to utilize vendors other than WorldCom for certain telecommunications services specified in the agreements. The Company has successfully achieved all minimum revenue commitments to WorldCom under these agreements through March 31, 2000.

(c) Other Commitments

During the first quarter of 2000, the Company signed a letter of intent with Cisco Systems, Inc. for financing of certain future capital expenditures. The Company believes that this proposed financing agreement will better enable the Company to fund its scheduled network expansion through the purchase of Cisco equipment. The proposed Cisco

credit facility will provide the Company with up to \$180.0 million of capital lease financing with a three-year repayment term. During the first quarter of 2000, \$50.0 million of the capital lease financing with Cisco was finalized and \$11.5 million was drawn down under the facility.

The Company has entered into various other equipment purchase agreements with certain of its vendors. Under these agreements, if the Company does not meet a minimum purchase level in any given year, the vendor may discontinue certain discounts, allowances and incentives otherwise provided to the Company. In addition, the agreements may be terminated by either the Company or the vendor upon prior written notice.

Additionally, the Company has entered into certain commitments to purchase capital assets with an aggregate purchase price of approximately \$386.9 million at March 31, 2000.

(d) Transport and Termination Charges

The Company has recorded revenue of approximately \$30.8 million and \$35.5 million for the three months ended March 31, 1999 and 2000, respectively, for reciprocal compensation relating to the transport and termination of local traffic to ISPs from customers of incumbent local exchange carriers ("ILECs") pursuant to various interconnection agreements. During the period, some of the ILECs have not paid all of the bills they have received from the Company and have disputed these charges based on the belief that such calls are not local traffic as defined by the various agreements and not subject to payment of transport and termination charges under state and federal laws and public policies. In addition, some ILECs, while paying a portion of reciprocal compensation due to ICG for ISP-bound traffic, have disputed other portions of the charges.

The resolution of these disputes have been, and will continue to be, based on rulings by state public utility commissions and/or by the Federal Communications Commission ("FCC"), or through negotiations between the parties. The Company has aggressively participated in state and federal regulatory and judicial proceedings that address the obligation of the ILECs to pay the Company reciprocal compensation for ISP-bound traffic under the Company's interconnection agreements. Subsequent to the issuance of favorable state regulatory rulings by the Colorado, Ohio and California state commissions, the

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(6) Commitments and Contingencies (continued)

Company has received payments from US West, Pacific Bell and GTE-California for certain amounts owed for reciprocal compensation totaling \$52.4 million through March 31, 2000.

Additionally, through March 31, 2000, Southwestern Bell Telephone Company ("SWBT") has remitted payment to the Company of \$5.4 million for reciprocal compensation owed to the Company for traffic from SWBT customers in Texas to ISPs served by the Company. On December 29, 1999, SWBT initiated commercial arbitration to determine whether the terms of

the Company's current interconnection agreement with SWBT require that the rates that the Company has been billing SWBT for reciprocal compensation be reduced to rates established by the Texas PUC in a 1998 consolidated arbitration with SWBT involving AT&T Corporation, MCI Communications Corporation and other parties. Due to subsequent procedural developments, this issue will be decided by the Texas PUC, rather than in commercial arbitration; the Texas PUC proceeding is pending.

On September 16, 1999, the CPUC rendered a decision against MFS/Worldcom, a CLEC ("MFS"), in an arbitration between Pacific Bell and MFS. The California PUC ruled that MFS should not be permitted to charge reciprocal compensation rates for the tandem switching and common transport rate elements. Although the California PUC's ruling did not involve the Company, the Company made a decision effective for the three months beginning on September 30, 1999 and thereafter to suspend the revenue recognition for the tandem switching and common transport rate elements for services provided in California and in all other states where the Company operates and such rate elements are included in the Company's interconnection agreement with the ILEC. Additionally, the Company recorded a provision of \$45.2 million during the three months September 30, 1999 for accounts receivable related to these elements recognized in periods through June 30, 1999, which the Company believes may be uncollectible. The Company ceased recording revenue for the tandem and transport elements of local reciprocal compensation until the cash is received effective June 30, 1999. The Company continues to bill Pacific Bell for the tandem switching and common transport rate elements, and will pursue collection of its accounts receivable, despite any provision. On February 4, 2000, the California PUC initiated a new proceeding to examine, on a prospective basis, compensation for ISP-bound traffic, including the tandem and transport rate elements issue.

On February 25, 1999, the FCC issued a decision that ISP-bound traffic is largely jurisdictionally interstate traffic. The decision relies on the long-standing federal policy that ISP traffic, although jurisdictionally interstate, is treated as though it is local traffic for pricing purposes. The decision also emphasizes that because there currently are no federal rules governing intercarrier compensation for ISP traffic, the determination as to whether such traffic is subject to reciprocal compensation under the terms of interconnection agreements is properly made by the state commissions and that carriers are bound by their interconnection agreements and state commission decisions regarding the payment of reciprocal compensation for ISP traffic. The FCC has initiated a rulemaking proceeding regarding the adoption of prospective federal rules for intercarrier compensation for ISP traffic. In its notice of rulemaking, the FCC expresses its preference that compensation rates for this traffic continue to be set by negotiations between carriers, with disputes resolved by arbitrations conducted by state commissions, pursuant to the Telecommunications Act. On March 24, 2000, the United States Court of Appeals for the District of Columbia Circuit vacated and remanded the FCC's February 25, 1999 decision. The Company does not believe that the Circuit Court's decision will adversely affect favorable state regulatory and judicial decisions awarding reciprocal compensation for ISP traffic. The decision does, however, create some uncertainty with respect to the timing of future regulatory decisions, and there can be no assurance that future FCC or state commission rulings will be favorable to the Company.

## Notes to Consolidated Financial Statements, Continued

## (6) Commitments and Contingencies (continued)

The Company has also recorded revenue of approximately \$5.2 million and \$5.5 million for the three months ended March 31, 1999 and 2000, respectively, related to other transport and termination charges to the ILECs, pursuant to the Company's interconnection agreements with these ILECs. Included in the Company's net trade receivables at March 31, 2000 are approximately \$55.0 million, for all receivables related to reciprocal compensation and other transport and termination charges.

As the Company's interconnection agreements expire or are extended, rates for transport and termination charges are being and will continue to be renegotiated and/or arbitrated. Rates for transport and termination also may be impacted by ongoing state and federal regulatory proceedings addressing intercarrier compensation for Internet traffic on a prospective basis. In addition to the FCC's pending rulemaking proceeding and the District of Columbia Court of Appeals recent remand, of the states in which ICG currently operates, the Ohio, Texas and California commissions currently are conducting proceedings on prospective compensation.

The Company has negotiated and/or arbitrated new or extended interconnection agreements with BellSouth, Ameritech, GTE-California and Pacific Bell. The Company has completed arbitration proceedings with BellSouth before the state commissions in Alabama, North Carolina, Georgia, Kentucky, Florida and Tennessee and with Ameritech before the Ohio commission. Final decisions issued by the Alabama, North Carolina, Kentucky and Georgia commissions awarded the Company reciprocal compensation for ISP traffic in new agreements to be executed by the parties, including the tandem and transport rate element. The arbitration decisions of the Florida and Ohio commissions declined to rule on the merits of whether the Company should be paid reciprocal compensation for ISP traffic. The Florida decision ruled that the compensation provisions of the parties' current interconnection agreement would continue to apply, subject to true up, until the completion of the FCC's rulemaking on future compensation. The Ohio commission deferred ruling on the merits until completion of the Ohio commission's generic proceeding on prospective compensation, and ordered that in the interim period until completion of the generic proceeding, bill and keep procedures should be followed, subject to true up once the commission proceeding is concluded. Arbitration proceedings with US West before the Colorado commission and with SWBT before the Texas commission are pending.

Subsequent to completion of the arbitration proceedings with BellSouth, the Company signed a three-year agreement with BellSouth that, among other issues, addresses the payment of reciprocal compensation for Internet traffic. BellSouth agreed to pay past monies due to the Company for local reciprocal compensation for the period beginning when ISP traffic was first received by the Company from BellSouth and ending December 31, 1999, and the parties also agreed to the payment of reciprocal compensation for Internet and voice traffic for the period from January 1, 2000 through December 31, 2002 at per-minute rates that gradually reduce over the three year period. The agreement is applicable to all nine states in the BellSouth operating territory.

While the Company intends to pursue the collection of all receivables related to transport and termination charges and believes that future revenue from transport and termination charges recognized under the Company's interconnection agreements will be realized, there can be no assurance that future regulatory and judicial rulings will be favorable to the Company, or that different pricing plans for transport and termination charges between carriers will not be adopted when the

Company's interconnection agreements continue to be renegotiated or arbitrated, or as a result of FCC or state commission proceedings on future compensation methods. In fact, the Company believes that different pricing plans will continue to be considered and adopted, and although the Company expects that revenue from transport and termination charges likely will decrease as a percentage of total revenue from local services in subsequent periods, the Company's local termination services still will be required by the ILECs and

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## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (6) Commitments and Contingencies (continued)

must be provided under the Telecommunications Act, and likely will result in increasing volume in minutes due to the growth of the Internet and related services markets. The Company expects to negotiate and/or arbitrate reasonable compensation and collection terms for local termination services, although there is no assurance that such compensation will remain consistent with current levels.

## (e) Litigation

On April 4, 1997, certain shareholders of Zycom filed a shareholder derivative suit and class action complaint for unspecified damages, purportedly on behalf of all of the minority shareholders of Zycom, in the District Court of Harris County, Texas (Case No. 97-17777) against the Company, Zycom and certain of their subsidiaries. This complaint alleges that the Company and certain of its subsidiaries breached certain duties owed to the plaintiffs. The plaintiffs were denied class certification by the trial court and the Court of Appeals affirmed the trial court's decision. In April 2000, the Company reached a tentative settlement arrangement with the plaintiffs. Under the terms of the proposed settlement, the Company would be completely released from all claims of the plaintiffs. The settlement would not have a material adverse effect on the Company's financial condition, results of operations or cash flows. If the parties are unable to finalize a settlement, an expedited trial will take place and the Company will vigorously defend against the plaintiffs' claims.

The Company is a party to certain other litigation which has arisen in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

## (7) Business Units

The Company conducts transactions with external customers through the operations of its Telecom Services business unit. Administrative services are provided to Telecom Services by Corporate Services. Corporate Services consists of the operating activities of ICG Communications, Inc., ICG Funding, LLC, ICG Canadian Acquisition, Inc., ICG Holdings (Canada) Co., ICG Holdings, Inc., ICG Services, Inc., ICG Tevis, Inc., ICG Corporate Headquarters, L.L.C., ICG 161, L.P. and ICG Mountain View, Inc., which primarily hold securities and real estate properties and provide certain legal, accounting and finance, personnel and other administrative support services to Telecom Services.

Direct and certain indirect costs incurred by Corporate Services on behalf of Telecom Services are allocated to Telecom Services based on the nature of the underlying costs. Transactions between Telecom Services and Corporate Services for services performed in the normal course of business are recorded at amounts which are intended to approximate fair value.

Set forth below are revenue, EBITDA (before nonrecurring and noncash charges), which represents the measure of operating performance used by management to evaluate operating results, depreciation and amortization, operating loss, interest expense, capital expenditures of continuing operations and total assets for Telecom Services and Corporate Services. As described in note 3, the operating results of the Company reflect the operations of Network Services, Satellite Services, Zycom and NETCOM as discontinued for all periods presented.

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## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (7) Business Units (continued)

	Three months ended March 31,	
	1999	2000
	(in thousands)	
Revenue:		
Telecom Services	\$ 104,331	157,224
Corporate Services	-	-
Total revenue	\$ 104,331	157,224
EBITDA (before nonrecurring and noncash charges) (a):		
Telecom Services	\$ 12,257	25,093
Corporate Services	(4,383)	(5,860)
Total EBITDA (before nonrecurring and noncash charges)	\$ 7,874	19,233
Depreciation and amortization (b):		
Telecom Services	\$ 35,229	64,324
Corporate Services	1,146	275
Total depreciation and amortization	\$ 36,375	64,599
Operating loss:		
Telecom Services	\$ 21,885	39,231
Corporate Services	5,683	6,567
Total operating loss	\$ 27,568	45,798
Interest expense (b):		

Telecom Services	\$ -	4,975
Corporate Services	47,438	57,659
	-----	-----
Total interest expense	\$ 47,438	62,634
	=====	=====
Extraordinary (loss) gain:		
Telecom Services	\$ 193,029	-
Corporate Services	-	-
	-----	-----
Total extraordinary (loss) gain	\$ 193,029	-
	=====	=====
Capital expenditures of continuing operations (c):		
Telecom Services	\$ 102,911	213,208
Corporate Services	-	-
	-----	-----
Total capital expenditures of continuing operations	\$ 102,911	213,208
	=====	=====
	December 31,	March 31,
	1999	2000
	-----	-----
	(in thousands)	
Total assets:		
Telecom Services (d)	\$ 1,845,171	1,989,189
Corporate Services (d)	261,085	157,677
Eliminations	(85,635)	(71,529)
	-----	-----
Total assets	\$ 2,020,621	2,075,337
	=====	=====

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## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (7) Business Units (continued)

- (a) EBITDA (before nonrecurring and noncash charges) consists of loss from continuing operations before interest, income taxes, depreciation and amortization, provision for impairment of long-lived assets, net loss (gain) on disposal of long-lived assets, other expense, net and accretion and preferred dividends on preferred securities of subsidiaries, or, revenue less operating costs and selling, general and administrative expenses. EBITDA (before nonrecurring and noncash charges) is presented as the Company's measure of operating performance because it is a measure commonly used in the telecommunications industry. EBITDA (before nonrecurring and noncash charges) is presented to enhance an understanding of the Company's operating results and is not intended to represent cash flows or results of operations in accordance with generally accepted accounting principles for the periods indicated. EBITDA (before nonrecurring and noncash charges) is not a measurement under generally accepted accounting principles and is not necessarily comparable with similarly titled measures of other companies.

- (b) Although not included in EBITDA (before nonrecurring and noncash charges), which represents the measure of operating performance used by management to evaluate operating results, the Company has supplementally provided depreciation and amortization and interest expense for each of the Company's business units and Corporate Services. Interest expense excludes amounts charged for interest on outstanding cash advances and expense allocations among the business units and Corporate Services.
- (c) Capital expenditures include assets acquired with cash, under capital leases and pursuant to IRU agreement and excludes payments for construction of the Company's corporate headquarters of \$1.7 million during the three months ended March 31, 2000 and corporate headquarters assets acquired through the issuance of long-term debt of \$33.7 million during the three months ended March 31, 1999.
- (d) Total assets of Telecom Services and Corporate Services excludes investments in consolidated subsidiaries which eliminate in consolidation.
- (8) Summarized Financial Information of ICG Holdings, Inc.

The 11 5/8% Senior Discount Notes due 2007 (the "11 5/8% Notes") issued by Holdings during 1997 are guaranteed by ICG. The 12 1/2% Senior Discount Notes due 2006 (the "12 1/2% Notes") and the 13 1/2% Senior Discount Notes due 2005 (the "13 1/2% Notes") issued by Holdings during 1996 and 1995, respectively, are guaranteed by ICG and Holdings-Canada.

The separate financial statements of Holdings have not been included herein because such disclosure is not considered to be material to the holders of the 11 5/8% Notes, the 12 1/2% Notes and the 13 1/2% Notes. However, summarized combined financial information for Holdings and its subsidiaries is as follows:

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## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (8) Summarized Financial Information of ICG Holdings, Inc. (continued)

## Summarized Consolidated Balance Sheet Information

	December 31, 1999	March 31, 2000
	-----	-----
	(in thousands)	
	-----	-----
Current assets	\$ 263,870	193,763
Property and equipment, net	675,613	736,724
Other non-current assets, net	128,489	105,551
	-----	-----
Total assets	\$1,067,972	1,036,038
	=====	=====
Current liabilities	148,042	175,785
Long-term debt, less current portion	1,138,734	1,174,719
Capital lease obligations, less		

current portion	57,564	57,220
Other long-term liabilities	1,233	3,649
Due to parent	256,348	271,252
Due to ICG Services	128,893	121,691
Redeemable preferred stock	390,895	405,203
Stockholder's deficit	(1,053,737)	(1,173,481)
	-----	-----
Total liabilities and stockholders' deficit	\$1,067,972	1,036,038
	=====	=====

## Summarized Consolidated Statement of Operations Information

	Three months ended March 31,	
	1999	2000
	-----	-----
	(in thousands)	
Total revenue	\$ 105,733	152,877
Total operating costs and expenses	138,105	206,659
	-----	-----
Operating loss	\$ (32,372)	(53,782)
	=====	=====
Loss from continuing operations	\$ (67,370)	(119,744)
	=====	=====
Net loss	\$ (82,250)	(119,744)
	=====	=====

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## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (9) Condensed Financial Information of ICG Holdings (Canada) Co.

Condensed financial information for Holdings-Canada only is as follows:

## Condensed Balance Sheet Information

	December 31, 1999	March 31, 2000
	-----	-----
	(in thousands)	
	-----	-----
Current assets	\$ 82	82
Advances to subsidiaries	256,348	271,252
Non-current assets, net	-	255,931
	-----	-----
Total assets	\$ 256,430	527,265
	=====	=====
Current liabilities	73	73

Long-term debt, less current portion	-	-
Due to parent	246,609	517,444
Share of losses of subsidiaries	1,053,737	1,173,481
Shareholders' deficit	(1,043,989)	(1,163,733)
	-----	-----
Total liabilities and shareholders' deficit	\$ 256,430	527,265
	=====	=====

## Condensed Statement of Operations Information

	Three months ended March 31,	
	1999	2000
	-----	-----
Total revenue	\$ -	-
Total operating costs and expenses	603	-
	-----	-----
Operating loss	\$ (603)	-
	=====	=====
Losses of subsidiaries	(82,250)	(119,744)
Net loss attributable to common shareholders	\$ (82,853)	(119,744)
	=====	=====

## (10) Condensed Financial Information of ICG Communications, Inc. (Parent company)

The primary assets of ICG are its investments in ICG Services, ICG Funding and Holdings-Canada, including advances to those subsidiaries. Certain corporate expenses of the parent company are included in ICG's statement of operations and were approximately \$0.5 million for both the three months ended March 31, 1999 and 2000. ICG has no operations other than those of ICG Services, ICG Funding and Holdings-Canada and their subsidiaries.

## (11) Events Subsequent to March 31, 2000

On April 10, 2000, the Company sold 75,000 shares of 8% Series A-1, A-2 and A-3 Convertible Preferred Stock of ICG (the "Convertible Preferred Stock") and 10,000,000 warrants to purchase ICG Common Stock to affiliates of Liberty Media Corporation ("Liberty Media"), Hicks, Muse, Tate & Furst Incorporated ("Hicks Muse") and Gleacher Capital Partners ("Gleacher Capital") (collectively, "the Investors"). The sale of the Convertible Preferred Stock resulted in proceeds to the Company of \$750.0 million

## ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

## (11) Events Subsequent to March 31, 2000 (continued)

(before cash fees and expenses of approximately \$36.0 million). Each share of Convertible Preferred Stock has an initial liquidation preference of \$10,000 per share and bears cumulative dividend rate of 8% per annum,

compounded quarterly. Dividends accrete to the liquidation preference on a quarterly basis for five years and are payable in cash or additional liquidation preference accretion thereafter. In the event of a change in control of the Company, as defined in the agreement, occurring prior to five years from the date of issuance of the Convertible Preferred Stock, the Company is, in most instances, required to make a special dividend payment to the Convertible Preferred Stockholders equal to the difference between the fully accreted liquidation preference of the Convertible Preferred Stock five years from the date of issuance and the existing liquidation preference on the date of the change in control. In addition, the Company has the right, but not the obligation, to offer to repurchase the Convertible Preferred Stock at 101% of the liquidation preference on the date of the change in control (after giving effect to the special dividend, if applicable).

The Convertible Preferred Stock is immediately convertible into shares of ICG Common Stock at a conversion rate of \$28.00 per share, subject to adjustment and will have voting rights with the common stockholders on an as-converted basis. The holders of the Series A-1 and A-2 Convertible Preferred Stock collectively will be entitled to elect up to three directors to the Company's Board of Directors. Additionally, certain material transactions outside the ordinary course of business will require an affirmative vote of at least one of the three directors elected by the holders of the Series A-1 and A-2 Convertible Preferred Stock. The Company may redeem the Convertible Preferred Stock at any time after five years from the date of issuance through 15 years from the date of issuance, at which time the Convertible Preferred Stock is mandatorily redeemable. The warrants to purchase ICG Common Stock are immediately convertible into shares of ICG Common Stock at a conversion rate of \$34.00 per share and expire in five years from the date of issuance. The affiliates of Liberty Media, Hicks Muse and Gleacher Capital purchased \$500.0 million, \$230.0 million and \$20.0 million, respectively, in Convertible Preferred Stock and received a ratable portion of the total 10,000,000 warrants.

Separately, on February 28, 2000, ICG Tevis, Inc., a subsidiary of the Company, agreed to purchase, subject to regulatory approvals, 1,000,000 shares of common stock of Teligent, Inc., a fixed wireless broadband communications provider ("Teligent"), from a subsidiary of Teligent in exchange for 2,996,076 shares of ICG Common Stock.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion includes certain forward-looking statements and information that is based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate" and "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. These forward-looking statements are affected by important factors, including, but not limited to, the ability of the Company to obtain adequate financing to fund expansion, the dependence on increased traffic on the Company's facilities, the successful implementation of the Company's strategy of offering an integrated telecommunications package of local, long distance, data and enhanced telephony and network services, the continued development of the Company's network infrastructure and actions of competitors and regulatory authorities that could cause actual results to differ materially from the forward-looking statements.